

MOSERS



Missouri State Employees' Retirement System
A Component Unit of the State of Missouri

Comprehensive Annual Financial Report
Fiscal Year Ended June 30, 1996



Missouri State Employees' Retirement System
A Component Unit of the State of Missouri

Comprehensive Annual Financial Report
Fiscal Year Ended June 30, 1996

Gary Findlay
Executive Director

Gary Irwin
Chief Financial Officer

906 Leslie Boulevard, P.O. Box 209
Jefferson City, Missouri 65101
(573) 751-2342
1-800-827-1063

Table of Contents

Introductory Section	
GFOA Certificate of Achievement	8
Letter of Transmittal	9
Letter from the Chairman	12
Board of Trustees	13
Administrative Organization	14
Organization of MOSERS	15
Professional Services	17
Financial Section	
Independent Auditors' Report	20
Financial Statements:	
Pension Trust Funds:	
Statements of Plan Net Assets	21
Statements of Changes in Plan Net Assets	22
Internal Service Fund:	
Balance Sheet	23
Statement of Revenues, Expenses, and Changes in Retained Earnings	24
Statement of Cash Flows	25
Notes to the Financial Statements	26
Required Supplementary Information:	
Schedules of Funding Progress	31
Schedules of Employer Contributions	32
Notes to the Schedules of Required Supplementary Information	33
Additional Financial Information:	
Schedule of Administrative Expenses	35
Schedule of Investment Expenses	36
Schedule of Professional/Consultant Fees	37
Pension Trust Funds - Investment Summary	38
Internal Service Fund - Investment Summary	39
Investment Section	
Investment Consultant's Report	42
Chief Investment Officer's Report	44
Investment Portfolio Assets	46
Total Fund Review	47
Domestic Equity Review	50
Schedule of Brokerage Commissions Paid	53
Fixed Income Review	54
International Equity Review	57
Cash Review	60
Real Estate Review	60
Venture Capital Review	61
"Other" Investment Review	61
Actuarial Section	
Actuary's Certification Letter	64
Summary of Actuarial Assumptions	65
Pension Trust Funds - Summary of Member Data Included in Valuations	68
MSEP Active Members by Attained Age and Years of Service	69
ALJLAP Active Members by Attained Age and Years of Service	70
Judicial Plan Active Members by Attained Age and Years of Service	71
Schedules of Active Member Valuation Data Last Six Years	72
MSEP Retirees and Beneficiaries Added and Removed	73
ALJLAP Retirees and Beneficiaries Added and Removed	74
Judicial Plan Retirees and Beneficiaries Added and Removed	75
Short-Term Solvency Test	76
Summary of Plan Provisions	77
Changes in Plan Provisions	80
MSEP Actuarial Present Values	81
ALJLAP Actuarial Present Values	82
Judicial Plan Actuarial Present Values	83
Statistical Section	
Summary	86
Membership in Retirement Plans - Last Ten Fiscal Years	87
Pension Trust Funds - Net Assets vs. Pension Liabilities	88
Pension Trust Funds - Ten Year Historical Data	89
Benefit Expenses by Type - Last Ten Fiscal Years	92
MSEP Benefits Payable June 30, 1996 - Tabulated by Option and Type of Benefit	93
Average Monthly Benefit Amounts Last Six Fiscal Years	94
MSEP Retirees and Beneficiaries Tabulated by Year of Retirement	95
MSEP Total Benefits Payable June 30, 1996 - Tabulated by Attained Ages of Benefit Recipients	96
ALJLAP Total Benefits Payable June 30, 1996 - Tabulated by Attained Ages of Benefit Recipients	97
Internal Service Fund - Ten Year Historical Data	98

Missouri State Employees' Retirement System

MOSERS' Mission

To play an integral role in the future financial security of plan participants by promptly and courteously delivering quality benefits and information which members value and trust through professional plan administration and prudent management of System assets.

Tribute to MOSERS' Retirees

"It is difficult to say what is impossible, for the dream of yesterday is the hope of today and the reality of tomorrow."

- Robert H. Goddard

Tribute to MOSERS' Retirees

Missouri State Employees' Retirement System dedicates this publication to current and future retirees that we have the pleasure of serving year after year.



*Ben & Jeanne Russell
Jefferson City, Missouri*



Introductory Section

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Missouri State Employees' Retirement System

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 1995

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Arthur R. Lynch
President

Jeffrey L. Esser
Executive Director

Letter of Transmittal



Board of Trustees

*Thomas Hodges
Chairman*

*Bob Holden
Vice Chairman*

Rep. Richard Franklin

Richard Hanson

Bradley Ketcher

Janette Lohman

Donald Martin

Bryan Ornburn

Sen. John Russell

Sen. John Scott

Rep. Bill Skaggs

*Gary Findlay
Executive Director*

*Rosemary Eppenauer
Asst. Executive Director*

*906 Leslie Boulevard,
P.O. Box 209
Jefferson City, Missouri 65102
Phone: (573) 751-2342
(800) 827-1063*

*MO Relay:
(800) 573-2466 (Voice)
(800) 573-2966 (TT)*



Gary Findlay
Executive Director

August 30, 1996

The Board of Trustees
Missouri State Employees' Retirement System
Jefferson City, MO 65101

It is with great pleasure that I submit this year's annual report of the Missouri State Employees' Retirement System (MOSERS). The year ended June 30, 1996, was a period of refinement of the programs initiated in the previous fiscal year in the areas of the investments and the internal organizational structure of the system. In addition, with this report we have incorporated the newly revised Government Finance Officers Association's Guidelines for the Preparation of a Public Employee Retirement System Comprehensive Annual Financial Report.

Report Contents and Structure

MOSERS is considered a component unit of the State of Missouri for financial reporting purposes and, as such, the financial statements contained in this report are also included in the State of Missouri Comprehensive Annual Financial Report. The financial information presented in this report is the responsibility of the management of MOSERS and sufficient internal accounting controls exist to provide reasonable assurance regarding the safekeeping of assets and fair presentation of the financial statements, supporting schedules and statistical tables. The report is also designed to comply with the reporting requirements of Sections 104.480 and 105.661 of the Revised Statutes of Missouri (RSMo) as amended. For ease of use, the report has been divided into the following five sections:

- ◆ The Introductory Section which contains general information regarding the operations of MOSERS.
- ◆ The Financial Section which contains the financial statements, schedules, and supplementary financial information regarding the funds administered by MOSERS.
- ◆ The Investment Section which contains information pertaining to the management of the investments of the pension trust funds.
- ◆ The Actuarial Section which contains information regarding the financial condition and financial position of the retirement plans administered by the System.
- ◆ The Statistical Section which contains data pertaining to the general statistical information regarding participants and finances of the System.

Summary of Financial Information

The following schedule presents the pension trust funds additions and deductions for the years ended June 30, 1996 and June 30, 1995. The additions for the year ended June 30, 1995 have been restated due to additional securities lending income and expense information which became available subsequent to the issuance of the June 30, 1995 report.

	<u>June 30, 1996</u>	<u>June 30, 1995</u>
Additions	\$603,411,731	\$512,784,316
Deductions	<u>(152,576,664)</u>	<u>(109,055,587)</u>
Net Increase	\$450,835,067	\$403,728,729

The additions increased by \$90,627,415 primarily as a result of increased contributions of \$28,811,749, increased appreciation of fair value of the investments of \$39,170,125, and an increase in dividend income of \$14,953,788. The deductions increased by \$43,521,077 primarily as a result of increased benefit payments of \$20,181,134 and a one time legal settlement expenses paid in the amount of \$23,148,000. (The latter expenses are described in the Notes to the Financial Statements in the Financial Section of this report.)

The following schedule presents a summary of the revenues and expenses of the Internal Service Fund (insurance activity) for the years ended June 30, 1996 and June 30, 1995.

	<u>June 30, 1996</u>	<u>June 30, 1995</u>
Operating revenues	\$ 14,507,138	\$ 14,263,601
Operating expenses	(15,428,604)	(14,342,816)
Non-operating revenues	<u>81,687</u>	<u>284,626</u>
Net revenues over (under) expenses	\$ (839,779)	\$ 205,411

During the fiscal year ended June 30, 1996 management decided to reduce the accumulated retained earnings of the internal service fund. This was accomplished through the waiver of premiums due from the State for the Basic Life Insurance Plan for a period of four months (a total of \$988,098). As a result, operating revenues increased by only \$243,537 whereas operating expenses increased by \$1,085,788. Non-operating revenues decreased by \$202,939 chiefly as a result of the one time legal settlement received in the year ended June 30, 1995 (\$205,411 net of legal fees).

Plan Financial Condition

The funding objective of MOSERS' pension trust funds is to meet long-term benefit promises through contributions which remain approximately level as a percent of member payroll over decades of time. Historical information relating to progress in meeting this objective is presented on pages 31-34. During the year ended June 30, 1996, the funded ratio of the Missouri State Employees' Plan, which covers 76,902 participants, increased from 84.1% to 85.1% and the funded ratio of the Administrative Law Judges' and Legal Advisors' Plan, which covers 79 participants, increased from 68.4% to 70.6%. Additional information regarding the financial condition of the pension trust funds can be found in the actuarial section of this report.

Investment Activity

During the year ended June 30, 1996, MOSERS' pension trust fund investments earned a total return of 16.5%. The transition of the investment custodian services from Boatmen's Trust Company to Bankers Trust Company was accomplished in the first quarter of the year. In addition, three active domestic equity managers were terminated and the proceeds were distributed to existing managers with management styles similar to those of the terminated managers, saving the System approximately \$750,000 annually in management fees. The process of reducing the investments in real estate continued during the year. Additional detail regarding this activity as well as information regarding our very favorable investment performance for the year may be found in the Investment Section of this report.

Certificate of Achievement for Excellence in Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to MOSERS for its comprehensive annual financial report for the fiscal year ended June 30, 1995. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report (CAFR) conforming to program standards. The CAFR must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. MOSERS has received a Certificate of Achievement for the last seven consecutive years (fiscal years ended 1989 - 1995). We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA for evaluation.

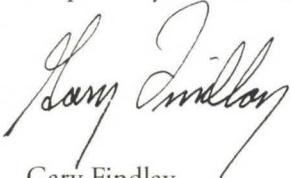
Conclusion

This report is a product of the combined efforts of the MOSERS' staff and advisors functioning under your leadership. It is intended to provide complete and reliable information which will facilitate the management decision process, serve as a means for determining compliance with legal requirements, and allow for the evaluation of responsible stewardship of the funds of the System. As in the past, MOSERS received an unqualified opinion from our independent auditors on the financial statements included in this report. The opinion of the independent auditor can be found on page 20.

Copies of this report are provided to the Governor, the State Auditor, the Joint Committee on Public Employee Retirement of the General Assembly, and all state agencies. These agencies form the link between MOSERS and its members — their cooperation contributes significantly to the success of MOSERS. We hope that all recipients of this report find it to be both informative and useful.

I would like to take this opportunity to express my gratitude to you, to the staff, to the advisors, and to the other people who have worked so diligently to assure the continued successful operation of the System.

Respectfully submitted,



Gary Findlay
Executive Director

Letter from the Chairman



Board of Trustees

*Thomas Hodges
Chairman*

*Bob Holden
Vice Chairman*

Rep. Richard Franklin

Richard Hanson

Bradley Ketcher

Janette Lohman

Donald Martin

Bryan Ornburn

Sen. John Russell

Sen. John Scott

Rep. Bill Skaggs

*Gary Findlay
Executive Director*

*Rosemary Eppenauer
Asst. Executive Director*

*906 Leslie Boulevard,
P.O. Box 209
Jefferson City, Missouri 65102
Phone: (573) 751-2342
(800) 827-1063*

*MO Relay:
(800) 573-2466 (Voice)
(800) 573-2966 (TT)*

August 30, 1996

Dear Members:

On behalf of the members of the Board of Trustees, I am pleased to present the MOSERS' Comprehensive Annual Financial Report for the fiscal year ended June 30, 1996 (FY 96). MOSERS experienced another outstanding year in a number of respects including a very healthy total return on System assets of 16.5%.

The Board of Trustees continued efforts in FY 96 to further diversify the System's investment portfolio and reduce costs associated with investment activities. An important layer of diversification was added to MOSERS' non-U.S. stock portfolio through the addition of a second manager whose active style of management nicely complements the passively managed portfolio. Additionally, the Board made adjustments to the U.S. stock portfolio based on the belief that smaller companies and companies with conservative fundamental valuation characteristics will continue to generate higher than broad market returns with lower volatility. These portfolio adjustments further allowed the Board to reduce by three the number of active managers and re-negotiate contracts in place with the remaining managers - moves that will generate annual savings of approximately \$750,000. These fee reductions, when combined with MOSERS' ongoing efforts to reduce brokerage commissions, will produce estimated additional savings to the System in excess of \$2 million annually. Detailed information regarding these activities can be found in the Investment Section of the report.

The Board of Trustees also re-negotiated contracts for the Optional Life Insurance and the Long Term Disability (LTD) Plans which it administers for the State of Missouri. The Board was successful in reducing rates for optional life insurance (from \$5.95 to \$4.00 per \$1,000 of coverage) for participants age 70 and older. Additionally, the LTD contract was amended to shorten from 180 days to 120 days the waiting period before a benefit is payable in the event of disability. (This was accomplished with no increase in cost.)

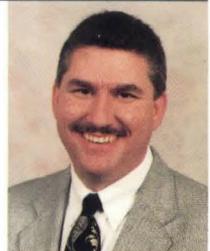
FY 96 was also a year of change for employees of MOSERS. We said good-bye to two long service employees - Sally Gillmore, Manager of Member Services, and Gerry Heller, Manager of Special Projects. Both Sally and Gerry contributed much to the successful operation of the System and we wish them well in their retirement years.

In closing, I would like to thank the staff at MOSERS for their dedication to providing quality service to both our membership and the Board of Trustees. As always, the members of the Board and MOSERS' staff welcome your input regarding the Retirement System and encourage you to contact us regarding how we might better serve you.

Very truly yours,

A handwritten signature in black ink, appearing to read "Thomas F. Hodges".

*Thomas F. Hodges, Chairman
Board of Trustees*



*Tom Hodges
Chairman*

Missouri State Employees' Retirement System

Board of Trustees

Chairman

Thomas Hodges
Probation Officer
Probation and Parole
Elected Active Member



Vice Chairman

Bob Holden
State Treasurer
Ex-Officio Member
Operations Committee
*Investment Oversight Committee **
Investment Committee



Richard Franklin
State Representative
House of Representatives Member
*Benefits Committee **
Investment Committee
Operations Committee



John Russell
State Senator
Senate Member
*Operations Committee **
Investment Committee



Janette Lohman
Director, Department of Revenue
Governor Appointed Member
Operations Committee
Investment Oversight Committee



Bradley Ketcher
Governor's Office
Governor Appointed Member
Benefits Committee
Operations Committee



Bill Skaggs
State Representative
House of Representatives Member
*Investment Committee **
Investment Oversight Committee
Benefits Committee



Bryan Ornburn
Elected Retired Member
Benefits Committee
Investment Committee
Operations Committee



Donald Martin
Associate Professor of Accounting
Central Missouri State University
Elected Active Member
Benefits Committee
Investment Oversight Committee



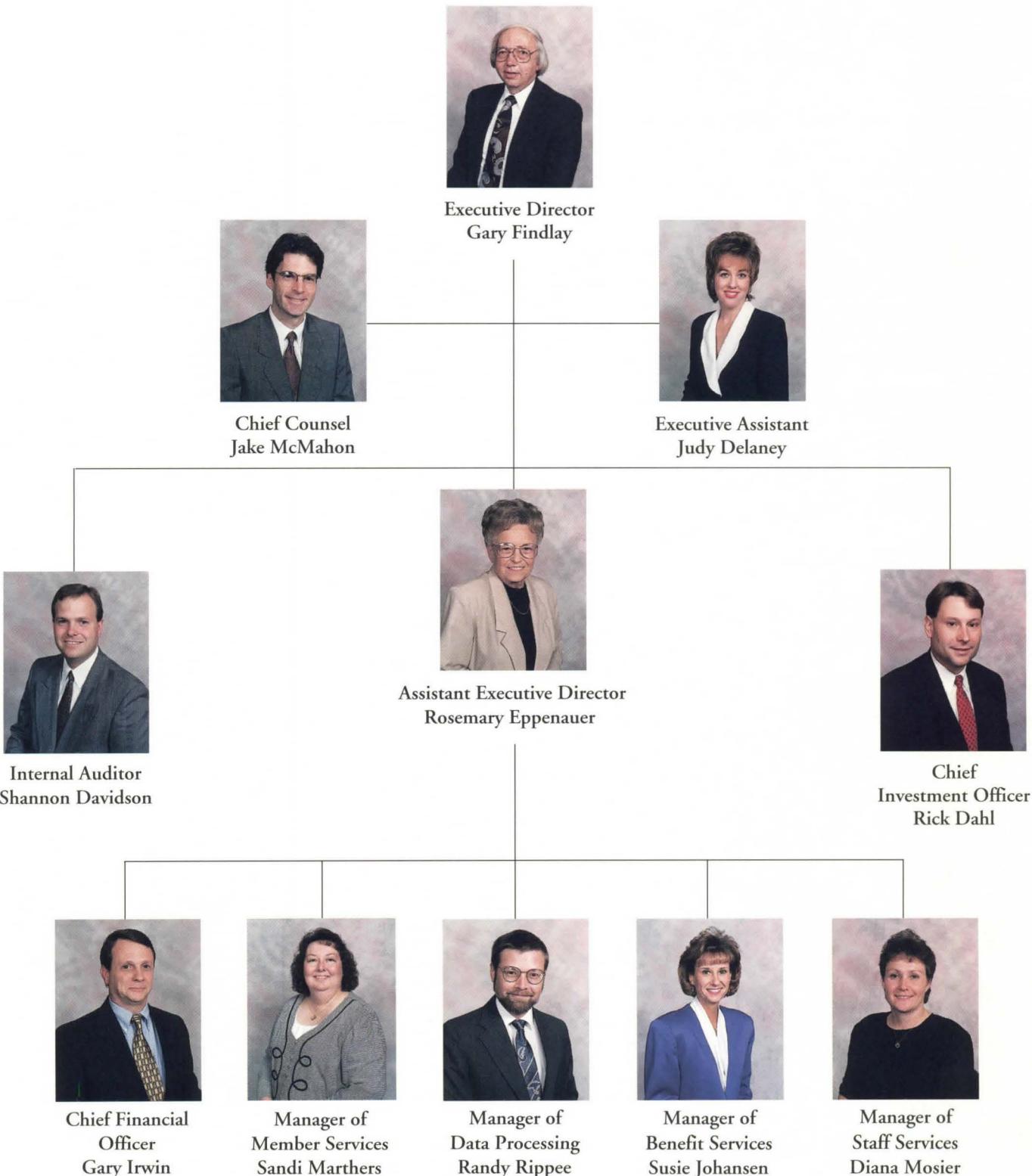
Richard Hanson
Commissioner of Administration
Ex-Officio Member
Investment Committee
Benefits Committee
Investment Oversight Committee



John Scott
State Senator
Senate Member
Investment Committee
Investment Oversight Committee

* Denotes committee chairman

Administrative Organization



Organization of MOSERS

The Executive Director and the Assistant Executive Director are responsible for the operation of the MOSERS' office. The Executive Director is accountable to the Board of Trustees and works with the Board as well as with the actuaries, the benefit consultants, the investment consultant and the investment managers. The MOSERS' office has 48 employees and is divided into eight sections.



Executive Services - The Executive Services team provides administrative support by assisting the Executive Director in the major operational functions of the retirement and benefit related programs. This team is comprised of an Executive Assistant, primarily responsible for legislative activities, an Internal Auditor charged with monitoring internal controls and reviewing operational procedures, and MOSERS' Chief Counsel who is responsible for handling legal work arising from the administration of laws governing the retirement System.

Judy Delaney, Jake McMahon, Shannon Davidson, Gary Findlay



Special Projects

The Special Projects team reports to the Assistant Director and is comprised of a Communications Specialist, responsible for developing and maintaining a formal communications program, a Public Information Specialist primarily responsible for conducting pre-retirement seminars for MOSERS' members, and a Projects Manager charged with preparing final audits on benefit payments. Also included in this group is the Maintenance Supervisor responsible for the upkeep and repair of MOSERS' building.

Gary Hollis, Jerry Hihn, Tracy Upschulte, Rosie Eppenauer, Denise Weaver



Accounting - This section is responsible for all financial records of the programs administered by MOSERS, including preparation of financial, statistical and investment reports. Accounting performs the purchasing functions for MOSERS, as well as interfaces with the investment consultant, investment managers, Office of Administration accounting, various payroll/personnel departments, life insurance companies, actuaries, banks, and the IRS. The Chief Financial Officer is responsible for the accounting section.

Gary Irwin, Cindy Kampeter, Angela Swanigan, Betsy Elley, Bob Morris



Benefit Services - This section is responsible for all direct contact with the membership regarding MOSERS' benefit programs. With a staff of seven employees, Benefit Services communicates information on all of the benefit programs administered by MOSERS including retirement, life and long-term disability. The Manager of Benefit Services is responsible for this section.

Steve Seibold, Susie Johansen, Marc Webb, Paul Rockers, Dawn Christian, Pam Henry, Bette Rovik



Data Processing - Using an IBM AS 400 computer, this section provides all computer and technical design support for MOSERS' programs. Data Processing is responsible for establishing and updating computer programs to implement plan changes. This section also maintains members folder information on an optical disk image system. All information is stored and processed using computer displayed images of the original documents. In addition, this section is responsible for administration of the personal computer network. The Manager of Data Processing is responsible for this section.

Randy Rippee, Michelle Shikles, Mark Howard, Glenda Luebbert, Barbara Bosch, Louie Bremer,
not pictured: Karen Raithel



Investment

The Investment Section provides internal investment management and consulting services to the Board and Director. The primary functions of staff include: analyzing and rebalancing the overall asset allocation of the System and its portfolio structure; managing portions of MOSERS' portfolio; providing technical advice; screening and monitoring external managers; serving as a liaison to the investment community; and informing and advising the Board and Director on financial, economic and political developments that may affect the System. Staff also works with the asset consultant on a project-specific basis. The Investment section consists of a Chief Investment Officer and four other professional staff members.

Pat Neylon, John Brandt, Jim Mullen, W.D. Allen, Rick Dahl



Member Services

This section consists of eight employees and is responsible for establishing and maintaining all membership records--including maintenance of the data on the optical disk image system, balancing payroll deductions for insurance and verification of all payroll, service and leave data which is entered into the system's computerized data base. The manager of Member Services is responsible for this section.

Juanita Libbert, Sandi Marthers, Sally Hager, Beverly Murphy, Angie Bashore,
Wanda Verdot, Hazel Bledsoe, Lori Bentlage



Staff Services

This section is responsible for providing clerical support for all Missouri State Employees' Retirement System personnel. The Manager of Staff Services also acts as secretary to the Board of Trustees and coordinates all the Board activities and serves as MOSERS Personnel Officer. The Manager of Staff Services is responsible for this section.

Maggie Rush, Lori Leeper, Jeff Goins, Diana Mosier, Betty Sutterfield

Although each section performs different job responsibilities, all the employees of the Retirement System work together to provide the best possible service to our members.

Professional Services

Actuary

Gabriel, Roeder, Smith & Co.
Actuaries and Consultants
Tom Cavanaugh
Mike Falco
Northport, New York

Auditors

KPMG Peat Marwick LLP
Certified Public Accountants
Karyn Molnar
Ted Flom
St. Louis, Missouri

Master Trustee/Custodian

Bankers Trust Company
of the Southwest
Douglas Womack
Houston, Texas

Equity Investment Advisors

Bankers Trust Company
Global Investment Management
Rick Vella
New York, New York

Capital Guardian Trust
Mike Nyeholt
Mike Erickson
Los Angeles, California

Chancellor Capital
Management, Inc.
Scott Tuck
Ellen Adams
New York, New York

Conning Asset
Management Company
Doug Koester
Lisa Longo
St. Louis, Missouri

Equity Investment Advisors Con't.

Independence
Investment Associates
Bill Kennedy
Boston, Massachusetts

Investment Advisors, Inc.
Kip Knelman
Suzanne Zak
Minneapolis, Minnesota

Kennedy Capital Management
Richard Anderson
Dick Sinise
St. Louis, Missouri

Montgomery Asset Management
Kevin Hamilton
Stuart Roberts
San Francisco, California

SENECA, Inc.
Patrick Tuohy
Sandi Sweeney
Florham Park, New Jersey

Silchester International Investors
Christopher Cowie
Stephen Butt
London, England

Wilshire Associates, Inc.
Mike Napoli Jr.
Tom Stevens
Santa Monica, California

Woodford Gayed Management, Inc.
Peggy Woodford Forbes
Michael Gayed
New York, New York

Fixed Income Investment Advisors

Black Rock
Financial Management, Inc.
Hugh Frater
Keith Anderson
New York, New York

**Fixed Income
Investment Advisors Con't.**

Boatmen's Trust Company
Tony Brown
Scott Leiberton
St. Louis, Missouri

Hoisington Investment
Management Company
Van Hoisington
Austin, Texas

Venture Capital Investment Advisor

Brinson Partners, Inc.
Bart Holaday
T. Bondurant French
Chicago, Illinois

Investment Management Consultant

Summit Strategies, Inc.
Steve Holmes
Charlie Holmes
St. Louis, Missouri

Legal Counsel

Thompson Coburn
Attorneys at Law
Allen Allred
Tom Litz
St. Louis, Missouri

Risk Management Consultant

Charlesworth & Associates
Art Charlesworth
Bob Charlesworth
Overland Park, Kansas



*Maurice & Norma Edwards
Springfield, Missouri*



Financial Section

Independent Auditors' Report



Peat Marwick LLP

Certified Public Accountants

1010 Market Street
St. Louis, MO 63101-2085



Karyn Molnar
Partner/Audit

August 15, 1996

The Board of Trustees
Missouri State Employees' Retirement System
Jefferson City, MO 65101

We have audited the financial statements of the Missouri State Employees' Retirement System's pension trust and internal service funds as of and for the year ended June 30, 1996, as listed in the accompanying table of contents. These financial statements are the responsibility of the Retirement System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements of the Missouri State Employees' Retirement System's pension trust funds present fairly, in all material respects, the plan net assets as of June 30, 1996, and the related changes in the plan net assets for the year then ended in conformity with generally accepted accounting principles. Also in our opinion, the financial statements of the Missouri State Employees' Retirement System's internal service fund present fairly, in all material respects, its financial position as of June 30, 1996, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary schedules of funding progress and employer contributions on pages 31 through 34 are not a required part of the basic financial statements of the Missouri State Employees' Retirement System, but are required by the Governmental Accounting Standards Board. The supplementary information included in pages 35 through 39 is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Missouri State Employees' Retirement System. Such information, included on pages 31 through 39, has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

KPMG Peat Marwick LLP



Member Firm of
Klynveld Peat Marwick Goerdeler

Missouri State Employees' Retirement System

Missouri State Employees' Retirement System
Statements of Plan Net Assets
Pension Trust Funds
As of June 30, 1996

	Missouri State Employees' Plan	Administrative Law Judges' and Legal Advisors' Plan	Judicial Plan	Total (Memorandum Only)
Assets				
<u>Cash and short-term investments</u>	\$ 237,522,732	\$ 587,312	\$ 0	\$ 238,110,044
<u>Receivables</u>				
State contributions	11,797,897	53,457	0	11,851,354
State reimbursements	0	0	841,023	841,023
Due from other plan	841,023	0	0	841,023
Investment income	18,462,247	45,651	0	18,507,898
Investment sales	155,534,971	384,585	0	155,919,556
Foreign exchange	28,011,248	69,262	0	28,080,510
Other	29,503	73	0	29,576
Total receivables	214,676,889	553,028	841,023	216,070,940
<u>Investments, at fair value</u>				
U.S. Treasury securities	405,519,872	1,002,712	0	406,522,584
Corporate bonds	218,056,346	539,179	0	218,595,525
Gov't bonds & Gov't mortgage backed securities	307,855,472	761,221	0	308,616,693
FHA mortgages	553,482	1,369	0	554,851
Real estate mortgages	15,488,939	38,299	0	15,527,238
Real estate equity	12,405,867	30,675	0	12,436,542
Common stock	1,655,005,278	4,092,261	0	1,659,097,539
International EAFE index fund	241,522,774	597,203	0	242,119,977
Preferred stock	3,559,549	8,802	0	3,568,351
Convertible bonds	907,205	2,243	0	909,448
Venture capital	14,313,499	35,392	0	14,348,891
Closed end real estate fund	7,156,028	17,694	0	7,173,722
Guaranteed investment contracts	14,157,284	35,006	0	14,192,290
Collateralized mortgage obligations	14,791,492	36,574	0	14,828,066
Foreign currency	1,468,686	3,632	0	1,472,318
International investments	276,524,647	683,751	0	277,208,398
Total investments	3,189,286,420	7,886,013	0	3,197,172,433
<u>Fixed assets</u>				
Land	70,825	175	0	71,000
Building and building improvements	1,191,723	2,947	0	1,194,670
Furniture, fixtures, and equipment	1,679,883	4,154	0	1,684,037
Accumulated depreciation	2,942,431	7,276	0	2,949,707
Total fixed assets	(1,292,956)	(3,197)	0	(1,296,153)
	1,649,475	4,079	0	1,653,554
<u>Prepaid expenses and other</u>	4,701	12	0	4,713
Total assets	3,643,140,217	9,030,444	841,023	3,653,011,684
Liabilities				
Administrative expense payables	1,313,381	3,248	0	1,316,629
Due to other plan	0	0	841,023	841,023
Investment purchases	163,873,767	405,204	0	164,278,971
Securities lending collateral	199,899,350	494,283	0	200,393,633
Foreign exchange	28,011,248	69,262	0	28,080,510
Real estate escrow deposits	64,516	160	0	64,676
Real estate security deposits	47,501	117	0	47,618
Employee vacation liability	83,909	207	0	84,116
Other liabilities	445	1	0	446
Total liabilities	393,294,117	972,482	841,023	395,107,622
Net assets held in trust for pension benefits	\$ 3,249,846,100	\$ 8,057,962	\$ 0	\$ 3,257,904,062
(A schedule of funding progress for each plan is presented on page 31.)				

See accompanying Notes to the Financial Statements.

Missouri State Employees' Retirement System

**Missouri State Employees' Retirement System
Statements of Changes in Plan Net Assets
Pension Trust Funds
Year Ended June 30, 1996**

	Missouri State Employees' Plan	Administrative Law Judges' and Legal Advisors' Plan	Judicial plan	Total (Memorandum Only)
Additions				
<u>Contributions</u>				
State contributions	\$ 137,007,112	\$ 548,276	\$ 0	\$ 137,555,388
Member purchases of service credit	726,527	0	0	726,527
State reimbursement of non-funded benefits	0	0	9,907,505	9,907,505
Employer contributions service transfers	135,598	0	0	135,598
Total contributions	137,869,237	548,276	9,907,505	148,325,018
<u>Investment income</u>				
Net appreciation in fair value of investments	332,219,573	821,195	0	333,040,768
Interest	67,641,393	167,199	0	67,808,592
Dividends	44,601,087	110,247	0	44,711,334
Real estate operating income, net	4,594,524	11,357	0	4,605,881
Securities lending income	10,023,112	24,776	0	10,047,888
Venture capital income	9,022,958	22,303	0	9,045,261
<i>Less investment expenses</i>				
Securities lending borrower rebates	(8,650,727)	(21,383)	0	(8,672,110)
Securities lending management fees	(398,487)	(985)	0	(399,472)
Investment management fees	(4,507,550)	(11,142)	0	(4,518,692)
Investment consulting fees	(149,630)	(370)	0	(150,000)
Investment custodial fees	(440,799)	(1,090)	0	(441,889)
<i>Total investment expenses</i>	(14,147,193)	(34,970)	0	(14,182,163)
Net investment income	453,955,454	1,122,107	0	455,077,561
<u>Miscellaneous income</u>				
Total additions	9,129	23	0	9,152
	591,833,820	1,670,406	9,907,505	603,411,731
Deductions				
Benefits	115,627,764	633,527	9,907,505	126,168,796
Service transfer payments	30,327	0	0	30,327
Administrative expense	3,221,578	7,963	0	3,229,541
Legal settlement expense	23,148,000	0	0	23,148,000
Total deductions	142,027,669	641,490	9,907,505	152,576,664
Net increase	449,806,151	1,028,916	0	450,835,067
Net assets held in trust for pension benefits				
Beginning of year, as restated	2,800,039,949	7,029,046	0	2,807,068,995
End of year	\$ 3,249,846,100	\$ 8,057,962	\$ 0	\$ 3,257,904,062

See accompanying Notes to the Financial Statements.

Missouri State Employees' Retirement System

**Missouri State Employees' Retirement System
Balance Sheet
Internal Service Fund
As of June 30, 1996**

Assets

Premiums receivable	\$ 801,104
Investments at cost	808,238
Total assets	<u>1,609,342</u>

Liabilities and retained earnings

Liabilities

Premiums payable	1,401,777
Employee vacation liability	7,963
Checks outstanding net of deposits	2,001
Other	<u>29,890</u>
Total liabilities	<u>1,441,631</u>

Retained earnings

Total liabilities and retained earnings	\$ 167,711
	<u>\$ 1,609,342</u>

See accompanying Notes to the Financial Statements.

Missouri State Employees' Retirement System

Missouri State Employees' Retirement System
Statement of Revenues, Expenses, and Changes in Retained Earnings
Internal Service Fund
Year Ended June 30, 1996

Operating revenues	
Premium income	\$ 14,110,249
Miscellaneous income	396,889
Total operating revenues	<u>14,507,138</u>
 Operating expenses	
Premium expense	15,044,250
Premium refunds	53,652
Administrative expenses	<u>330,702</u>
Total operating expenses	<u>15,428,604</u>
Operating revenues under operating expenses	(921,466)
 Non-operating revenues	
Investment income	<u>81,687</u>
Net revenues under expenses	(839,779)
Retained earnings July 1, 1995	<u>1,007,490</u>
Retained earnings June 30, 1996	<u>\$ 167,711</u>

See accompanying Notes to the Financial Statements.

Missouri State Employees' Retirement System

Missouri State Employees' Retirement System
Statement of Cash Flows
Internal Service Fund
Year Ended June 30, 1996

Cash flows from operating activities	
Cash received from employer and members	\$ 14,024,032
Other miscellaneous income	356,141
Premium payments to outside carriers	(15,046,871)
Refunds of premiums to members	(53,652)
Cash payments to employees for services	(189,317)
Cash payments to other suppliers of goods and services	(29,963)
Net cash used in operating activities	<u><u>(939,630)</u></u>
 Cash flows from non-capital financing activities	
Legal settlement	270,000
Implicit funding of checks outstanding net of deposits	2,001
Implicit repayment of prior years checks outstanding net of deposits	<u>(2,907)</u>
Net cash provided by non-capital financing activities	<u><u>269,094</u></u>
 Cash flows from investing activities	
Purchase of investment securities	(169,151,774)
Proceeds from sale and maturities of investment securities	169,736,197
Cash received from investment income	86,113
Net cash provided by investing activities	<u><u>670,536</u></u>
Net increase in cash	<u><u>0</u></u>
Cash balances July 1, 1995	0
Cash balances June 30, 1996	<u><u>\$ 0</u></u>
 Reconciliation of operating revenues over expenses to net cash used in operating activities	
Operating revenues under expenses	\$ (921,466)
Adjustments to reconcile operating revenues under expenses to net cash used in operating activities:	
Change in assets and liabilities:	
Increase in operational accounts receivable	(86,250)
Increase in operational accounts payable	68,086
Total adjustments	<u>(18,164)</u>
Net cash used in operating activities	<u><u>\$ (939,630)</u></u>

See accompanying Notes to the Financial Statements.

Missouri State Employees' Retirement System
Notes to the Financial Statements
Year Ended June 30, 1996

1) Plan Descriptions

Missouri State Employees' Plan

The Missouri State Employees' Plan (MSEP) is a single-employer, public employee retirement plan administered in accordance with Sections 104.010 and 104.320 to 104.800 of the Revised Statutes of Missouri (RSMo). As established under Section 104.320, RSMo, "The Missouri State Employees' Retirement System shall be a body corporate and an instrumentality of the state. In the System shall be vested the powers and duties specified in Sections 104.010 and 104.320 to 104.800 and such other powers as may be necessary or proper to enable it, its officers, employees and agents to carry out fully and effectively all the purposes of Sections 104.010 and 104.320 to 104.800."

Responsibility for the operation and administration of the System is vested in the Missouri State Employees' Retirement System (MOSERS) Board of Trustees. Due to the nature of MOSERS reliance on funding from the State of Missouri and the overall control of policies by State officials on the Board of Trustees, the MSEP is considered a part of the State of Missouri financial reporting entity and is included in the State's financial reports as a pension trust fund.

Substantially all full-time State employees who are not covered under another State-sponsored retirement plan are eligible for membership in MSEP. On June 30, 1996, membership consisted of the following:

Retirees and beneficiaries currently receiving benefits	15,004
Terminated employees entitled to but not yet receiving benefits	10,473
Active:	
Vested	31,940
Non-vested	19,485
Total membership	<u>76,902</u>

MSEP provides retirement, death and disability benefits to its members. Benefits for general State employees are fully vested after 5 years of creditable service (4 years for elected officials and 6 years for legislators). Employees may retire at or after age 55 and receive a reduced benefit (or full benefits if they are at least age 50 and their combined age and service equal 80). Cost of Living adjustments are provided annually based on 80% of the change in the Consumer Price Index with a floor of 4% and ceiling of 5%. Qualified terminated vested members may make a one time election to receive the present value of their benefit in a lump sum payment. To qualify, a member must

have terminated employment on or after 10/1/84 with at least 5 but less than 10 years of service and be less than age 60 (50 for legislators and uniformed water patrol officers).

The State of Missouri is required to make all contributions to the MSEP. Prior to September 1, 1972, contributions by members were required. Accumulated employee contributions made prior to that time, plus interest, are refundable to the member or designated beneficiaries.

Administrative Law Judges' and Legal Advisors' Plan

The Administrative Law Judges' and Legal Advisors' Plan (ALJLAP) is a single-employer, public employee retirement plan administered in accordance with Sections 287.812 to 287.855, RSMo. Responsibility for the operation and administration of the System is vested in the MOSERS' Board of Trustees. Due to the nature of MOSERS reliance on funding from the State of Missouri and the overall control of policies by State officials on the Board of Trustees, the ALJLAP is considered a part of the State of Missouri financial reporting entity and is included in the State's financial reports as a pension trust fund.

Individuals appointed or employed as administrative law judges or legal advisors of the Division of Workers' Compensation, members of the Labor and Industrial Relations Commission and their attorney or legal counsel, and members of the State Board of Mediation are eligible for membership in ALJLAP.

ALJLAP provides retirement, death and disability benefits to its members. Employees who retire on or after age 65 with 12 or more years of creditable service are eligible for a monthly retirement benefit equal to one-half of the highest salary received during the period of service. Employees with less than 12 years of service are eligible for a reduced benefit upon retirement. Cost of Living adjustments are provided annually based on 80% of the change in the Consumer Price Index with a floor of 4% and a ceiling of 5%. The State of Missouri is required to make all contributions to the ALJLAP. On June 30, 1996, membership consisted of the following:

Retirees and beneficiaries currently receiving benefits	21
Terminated employees entitled to but not yet receiving benefits	12
Active:	
Vested	46
Non-vested	0
Total membership	<u>46</u>

Judicial Plan

The Judicial Plan is a single-employer, public employee retirement plan administered in accordance with Sections 476.445 to 476.690, RSMo. The Judicial Plan provides retirement, death and disability benefits to those serving as judges in the State of Missouri. Retirement benefits for members of the judiciary are administered and paid by MOSERS. Amounts paid are reimbursed monthly from appropriations of State funds and are not obligations of MOSERS.

Supreme Court judges who are at least age 65 with eight or more years of creditable service in that capacity (or age 60 with 12 years of creditable service) are eligible for retirement benefits equal to one-half of the salary provided by law at the time of retirement. Other judges are eligible for retirement benefits at age 62 with 12 years of creditable service (or age 60 with 15 years of creditable service) equal to one-half of the salary paid to the judge in the highest court served. On June 30, 1996, membership consisted of the following:

Retirees and beneficiaries currently receiving benefits	337
Terminated employees entitled to but not yet receiving benefits	63
Active:	
Vested	366
Non-vested	<u>0</u>
Total membership	<u>766</u>

Missouri State Insurance Plan

The Missouri State Insurance Plan is accounted for as an internal service fund of the State of Missouri and is administered by MOSERS. It provides basic life insurance for eligible members of the Missouri State Employees' Retirement System (except employees of the Department of Conservation, Highway Department, Highway Patrol, and State Colleges and Universities), members of the Judicial Retirement Plan, legislators, statewide elected officials, and certain members of the Public School Retirement System; and Optional Life insurance for active employees and retirees. Beginning January 1, 1996, employees of the Department of Labor and Industrial Relations were also provided the basic and optional life insurance. Beginning January 1, 1986, eligible members were covered by the Long-Term Disability Plan. Due to the nature of MOSERS reliance on funding from the State of Missouri and the overall control of policies by State officials on the Board of Trustees, the Missouri State Insurance Plan is considered a part of the State of Missouri financial reporting entity and is included in the State's financial reports as an internal service fund.

2) Summary of Significant Accounting Policies and Plan Asset Matters

Basis of Accounting

The financial statements of the MSEP, ALJLAP, Judicial Plan, and Missouri State Insurance Plan were prepared using the accrual basis of accounting. Employer and employee contributions are recognized as revenues in the period in which employee services are performed and expenses are recorded when the corresponding liabilities are incurred, regardless of when payment is made. The direct method of reporting cash flows is used.

Cash

Cash balances represent both operating cash accounts held by the banks and investment cash on deposit with the investment custodian. To maximize investment income, the float caused by outstanding checks is invested, thus causing a possible negative book balance. The negative book balance has been reflected in the liabilities section of the balance sheet of the Internal Service Fund. The negative book balance has been included in the cash and short-term investments on the Statements of Plan Net Assets of the pension trust funds. The following is a schedule of the aggregate book and bank balances of all cash accounts. All deposits are fully insured by the FDIC. In addition to the FDIC insurance coverage on the accounts of MOSERS, the following security was pledged to MOSERS by the bank at June 30, 1996:

\$2,350,000 Federal Farm Credit Bank Discount
Note Maturity Date 8/14/96

Cash Balances			
<u>Pension Trust Funds</u>		<u>Internal Service Fund</u>	
Book	Bank	Book	Bank
\$4,792,272	\$652,082	\$2,001	\$439

Method Used to Value Investments

Investments of the pension trust funds are reported at fair value. Investments of the internal service fund are reported at cost.

The following schedule provides a summary of the cost and market values of the investments as reported on the Statements of Plan Net Assets of the pension trust funds and Balance Sheet of the internal service fund. Market values for the equity real estate investments are based on appraisals performed. Market values of the venture capital investments are provided by Brinson Partners based on valuations of the underlying companies of the limited partnerships. Market value of the EAFE index fund is determined based on the underlying assets in the fund. The remaining assets are primarily priced by the investment custodian using the last trade price information as supplied by various price data vendors.

Categories of Asset Risks

Missouri State Employees' Retirement System

Investments
June 30, 1996

	Pension Cost	Trust Funds Market	Internal Service Fund Cost	Internal Service Fund Market	Total (Memorandum Only) Cost	Total (Memorandum Only) Market
CATEGORY 1 CLASSIFICATION						
Common stocks						
Not on securities loan	\$1,364,985,018	\$1,648,284,809	\$0	\$0	\$1,364,985,018	\$1,648,284,809
On securities loan for non-cash collateral	129,266	205,500	0	0	129,266	205,500
International investments						
Not on securities loan	214,273,977	233,881,744	0	0	214,273,977	233,881,744
On securities loan for non-cash collateral	6,947,459	7,200,935	0	0	6,947,459	7,200,935
Preferred stocks						
Treasury bonds, notes and bills	3,461,973	3,568,351	0	0	3,461,973	3,568,351
Not on securities loan	211,006,776	209,163,309	0	0	211,006,776	209,163,309
On securities loan for non-cash collateral	101,880,296	102,211,310	0	0	101,880,296	102,211,310
Gov't bonds & Gov't mortgage backed securities	287,111,054	289,279,099	0	0	287,111,054	289,279,099
Corporate bonds						
Not on securities loan	174,860,863	176,235,245	0	0	174,860,863	176,235,245
On securities loan for non-cash collateral	7,771,317	8,058,757	0	0	7,771,317	8,058,757
Convertible bonds	812,780	909,448	0	0	812,780	909,448
Subtotal	2,373,240,779	2,678,998,507	0	0	2,373,240,779	2,678,998,507
CATEGORY 2 CLASSIFICATION						
Repurchase agreements	1,065,110	1,065,110	808,238	808,238	1,873,348	1,873,348
Subtotal	1,065,110	1,065,110	808,238	808,238	1,873,348	1,873,348
NOT SUBJECT TO CLASSIFICATION						
Investments held by broker-dealers						
under securities loans for cash collateral						
Common stocks	10,831,546	10,607,230	0	0	10,831,546	10,607,230
International investments	32,907,971	36,125,719	0	0	32,907,971	36,125,719
Treasury bonds, notes and bills	92,915,203	95,147,965	0	0	92,915,203	95,147,965
Government bonds	18,785,026	19,337,594	0	0	18,785,026	19,337,594
Corporate bonds	30,494,382	34,301,523	0	0	30,494,382	34,301,523
Short-term investment funds	241,837,206	241,837,206	0	0	241,837,206	241,837,206
Collateralized mortgage obligations	14,811,385	14,828,066	0	0	14,811,385	14,828,066
Guaranteed investment contracts	14,192,290	14,192,290	0	0	14,192,290	14,192,290
Real estate loans and mortgages	15,471,502	15,527,238	0	0	15,471,502	15,527,238
Real estate equity holdings	15,087,956	12,436,542	0	0	15,087,956	12,436,542
Closed-end real estate fund	8,657,127	7,173,722	0	0	8,657,127	7,173,722
EAFE index fund	206,908,749	242,119,977	0	0	206,908,749	242,119,977
Foreign currencies	119,116	1,472,318	0	0	119,116	1,472,318
Venture capital limited partnerships	21,540,701	14,348,891	0	0	21,540,701	14,348,891
FHA mortgages	549,922	554,851	0	0	549,922	554,851
Subtotal	725,110,082	760,011,132	0	0	725,110,082	760,011,132
Total	\$3,099,415,971	\$3,440,074,749	\$808,238	\$808,238	\$3,100,224,209	\$3,440,882,987
Reconciliation to investments on Statements of Plan Net Assets						
Totals above	3,099,415,971	3,440,074,749				
Less short-term investments:						
Repurchase agreements	(1,065,110)	(1,065,110)				
Short-term investment funds	(241,837,206)	(241,837,206)				
Investments on Statements of Plan Net Assets	\$2,856,513,655	\$3,197,172,433				

All investments are governed primarily by an investment authority known as the “prudent person rule.” The “prudent person rule,” as set forth by State statute, establishes a standard for all fiduciaries, which includes anyone who has authority with respect to the funds. The Governmental Accounting Standards Board Statement Number 3 requires disclosure of investment securities within the following three categories of credit risk. Category 1 includes investments that are insured or registered or which are held by the System or its agent in the System’s name. Category 2 includes uninsured and unregistered investments which are held by the counterparty’s trust departments or agent in the System’s name. Category 3 includes uninsured and unregistered investments which are held by the counterparty, its trust department, or agent, but not in the System’s name.

A security, for purposes of classification in the above categories, is a transferable financial instrument that evidences ownership or creditorship. “Securities” do not include investments made with another party, real estate or direct investments in mortgages and other loans. Investments in open-end mutual funds, annuity contracts and guaranteed investment contracts are also not considered securities for purposes of credit risk classification. Such investments are shown on the previous page as “Not Subject To Classification.”

Total Memorandum Only Columns

Total columns captioned “(Memorandum Only)” are to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Such data is not comparable to a consolidation since interfund eliminations have not been made.

Securities Lending Program

During fiscal year 1996, MOSERS’ pension trust funds elected to make an early adoption of the provisions of the Governmental Accounting Standards Board (GASB) Statement Number 28, “Accounting and Financial Reporting for Securities Lending Transactions.” The early adoption did not require any restatements to prior year balances as the pension trust funds had reported securities lending transactions prior to GASB 28.

Board of Trustees policies permit the pension trust funds to participate in a securities lending program. The program is administered by Bankers Trust Company (the Custodian). Certain securities of the pension trust funds are loaned to participating brokers. Brokers who borrow the securities provide collateral in the form of cash, U.S. Treasury or Government Agency securities, or letters of credit issued by approved banks. Collateral must be provided in the amount of 102% for domestic loans and 105% for international loans. Securities on loan at fiscal year-end for cash collateral are presented as “not subject to classification” in the preceding

investments schedule of custodial credit risk; securities on loan for non-cash collateral are classified according to the category pertaining to the collateral. The Custodian provides for full indemnification to the pension trust funds for any losses that might occur in the program due to the failure of a broker to return a security that was borrowed (and if the collateral is inadequate to replace the securities lent) or failure to pay the pension trust funds for income of the securities while on loan. Due to the full indemnification and the fact that securities are monitored daily to ensure the collateral position exceeds the amount the borrowers owe the pension trust funds, credit risk is eliminated. The pension trust funds cannot pledge or sell collateral securities received unless the borrower defaults.

The majority of securities loans are open loans and can be terminated on demand by either MOSERS or the borrower. Cash collateral is invested in MOSERS’ name in a dedicated short term investment fund. The cash collateral investments had an average weighted maturity of 24 days at June 30, 1996. Investment income from the invested collateral is shared 70/30 for the domestic loans and 75/25 for international loans between the pension trust funds and the Custodian respectively, representing their compensation for operating the program. Investment income and losses on securities loaned are recognized by the pension trust funds.

During fiscal year 1996, an error was discovered pertaining to the securities lending income and expenses for fiscal year 1995. Beginning net assets held in trust for pension benefits has been restated by a reduction of \$1,630,893 as a result of the additional income and expenses.

Office Building, Equipment, and Fixtures

Office building, equipment, and fixtures are capitalized at cost when acquired. Improvements which increase the useful life of the property are capitalized. Maintenance and repairs are charged to expense as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets according to the following schedule:

5 years for furniture, fixtures, equipment
40 years for building

Legal Settlements

MOSERS was a party to several law suits which were settled in the year ended June 30, 1996. In a settlement agreement reached in Harold Lynch, et al. v. The Public School Retirement System of Missouri, et al., MOSERS paid \$23,000,000 into an account established to settle claims of the class members. Upon completion of the distributions to the class members, MOSERS is to receive a portion of any unexpended funds plus interest earned on the funds held in account. The amount to be returned to MOSERS has not been determined and accordingly no provision has been made in the accompanying financial statements.

In other law suits involving the MOSERS’ Missouri Small

Business Development Fund, a settlement was reached wherein MOSERS paid \$148,000 as settlement and release of all claims.

(3) Contributions and Reserves

MSEP and ALJLAP are pension plans covering substantially all State of Missouri employees and administrative law judges and legal advisors of the Division of Workers' Compensation. The State of Missouri is obligated by State law to make all required contributions to the plans. The required contributions are expressed as a percentage of covered payroll and are actuarially determined using an individual entry-age actuarial cost method. The prior service costs are amortized over 25 years for the MSEP and 28 years for the ALJLAP. The Judicial Plan is a non-funded or "pay-as-you-go" plan for which the State of Missouri reimburses MOSERS on a monthly basis for the benefits paid each month. Costs of administering the plans are financed from the assets of the pension trust funds.

(4) Other Post Employment Benefits (OPEB)

In addition to the retirement benefits provided through MOSERS, the State of Missouri also funds, either partially or in its entirety, OPEB for eligible retirees as follows:

Retiree Life Insurance

Retirees who retired on or after October 1, 1984, are eligible for \$5,000 of State-sponsored life insurance coverage if they retire directly from active employment. As of June 30, 1996, 5,788 retirees were eligible and participating in the program. The coverage is financed on a pay-as-you-go basis and is purchased as a group policy through competitive bids at a current cost of \$10.35 per month per eligible participant (\$686,764 for the year ended June 30, 1996). Premiums are paid entirely by the State as provided for by Section 104.515 RSMo. During the year ended June 30, 1996 management decided to reduce the accumulated retained earnings of the internal service fund through a waiver of the premiums collected from the State of Missouri for the Basic Life Insurance Plan. The total retiree life premiums waived equaled \$228,476.

Retirees of the Department of Labor and Industrial Relations

(DLIR) who retired prior to January 1, 1996, are eligible for State-sponsored life insurance coverage in the same amount of coverage they were receiving through the DLIR. As of June 30, 1996, 855 retirees were eligible and participating in the program. The coverage is financed on a pay-as-you-go basis and is purchased as a group policy through competitive bids at a current cost of \$2.07 per thousand dollars of coverage, per month, per eligible participant (\$56,937 for the year ended June 30, 1996). Premiums are paid entirely by the DLIR as provided for by Section 228.225 RSMo. Retirees of the DLIR who retired after January 1, 1996 are eligible for \$5,000 of State-sponsored life insurance coverage if they retire directly from active employment and are included in the group identified in the preceding paragraph.

(5) Plan Termination

MOSERS and its related plans are administered in accordance with Missouri Statutes. The statutes do not provide for termination of the plans under any circumstances.

(6) Contingencies

Real Estate

Included in MOSERS' real estate investments is a property located in Saint Louis, Missouri which has been found to have hazardous substance contamination. MOSERS is currently participating in the Hazardous Substance Environmental Remediation Program administered by the Missouri Department of Natural Resources in order to delineate the scope and magnitude of the contamination and determine what appropriate remedial action is needed. Based on the available information, the System's management feels it is not reasonably possible to predict the amount of additional expense MOSERS may incur, or to predict the outcome of any possible cost recovery actions it may take against other parties. Accordingly, no provision has been made in the accompanying financial statements for this matter.

MOSERS is a defendant in a number of other lawsuits which, in management's opinion, will not have a material effect on the financial statements.

Missouri State Employees' Retirement System

**Required Supplementary Information
Schedules of Funding Progress**

Missouri State Employees' Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)-Entry Age (b)	Unfunded AAL(UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/90	\$ 1,587,114,827	\$ 1,861,365,216	\$ 274,250,389	85.3%	\$ 994,228,494	27.6%
6/30/91	1,793,370,043	2,052,600,760	259,230,717	87.4	1,027,719,059	25.2
6/30/92	1,991,215,165	2,291,583,890	300,368,725	86.9	1,030,240,894	29.2
6/30/93	2,236,558,739	2,447,222,060	210,663,321	91.4	1,063,246,615	19.8
6/30/94	2,425,134,504	2,919,456,425	494,321,921	83.1	1,124,862,008	43.9
6/30/95	2,649,077,134	3,150,796,580	501,719,446	84.1	1,198,938,042	41.8
6/30/96	2,927,896,643	3,440,126,483	512,229,840	85.1	1,267,605,000	40.4

Administrative Law Judges' and Legal Advisors' Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)-Entry Age (b)	Unfunded AAL(UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/90	\$ 4,093,598	\$ 6,333,743	\$ 2,240,145	64.6%	\$ 1,912,986	117.1%
6/30/91	4,707,938	7,202,859	2,494,921	65.4	1,940,201	128.6
6/30/92	5,247,546	7,483,415	2,235,869	70.1	1,725,380	129.6
6/30/93	5,864,317	8,164,468	2,300,151	71.8	1,931,355	119.1
6/30/94	6,229,224	8,766,732	2,537,508	71.1	2,094,062	121.2
6/30/95	6,655,207	9,729,955	3,074,748	68.4	2,166,275	141.9
6/30/96	7,258,814	10,276,363	3,017,549	70.6	2,706,314	111.5

Judicial Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)-Entry Age (b)	Unfunded AAL(UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/90	\$ 0	\$ 101,900,740	\$ 101,900,740	0.0%	\$ 24,463,766	416.5%
6/30/91	0	119,052,585	119,052,585	0.0	25,742,372	462.5
6/30/92	0	127,140,534	127,140,534	0.0	26,402,164	481.6
6/30/93	0	132,441,964	132,441,964	0.0	26,641,236	497.1
6/30/94	0	141,595,625	141,595,625	0.0	27,006,602	524.3
6/30/95	0	153,646,982	153,646,982	0.0	27,984,008	549.1
6/30/96	0	161,734,110	161,734,110	0.0	29,908,056	540.8

See Notes to the Schedules of Required Supplementary Information.
See accompanying Independent Auditors' Report.

Missouri State Employees' Retirement System

**Required Supplementary Information
Schedules of Employer Contributions**

Missouri State Employees' Plan

Year Ended June 30	<u>Annual Required Contribution</u>	Percentage Contributed	
	Percent	Dollar Amount	
1991	11.57%	\$ 120,205,229	86%
1992	9.65	100,672,145	100
1993	9.68	102,988,219	100
1994	9.49	106,681,308	100
1995	9.04	108,902,372	100
1996	10.69	137,007,112	100

Administrative Law Judges' and Legal Advisors' Plan

Year Ended June 30	<u>Annual Required Contribution</u>	Percentage Contributed	
	Percent	Dollar Amount	
1991	26.61%	\$ 527,648	100%
1992	25.51	500,250	100
1993	27.77	548,707	100
1994	24.18	502,019	100
1995	22.50	498,233	100
1996	21.16	548,276	100

Judicial Plan

Year Ended June 30	<u>Annual Required Contribution</u>	Percentage Contributed	
	Percent	Dollar Amount	
1991	35.55%	\$ 9,151,413	56%
1992	37.78	9,974,738	74
1993	40.93	10,904,258	71
1994	40.12	10,835,049	76
1995	40.85	11,431,467	80
1996	43.14	12,902,335	77

See Notes to the Schedules of Required Supplementary Information.
See accompanying Independent Auditors' Report.

Missouri State Employees' Retirement System
Notes to the Schedules of Required Supplementary Information
June 30, 1996

**Actuarial Methods and Assumptions for
Valuations Performed June 30, 1996**

The entry age normal actuarial cost method of valuation is used in determining liabilities and normal cost. Differences in the past between assumed experience and actuarial experience ("actuarial gains and losses") become part of actuarial accrued liabilities. Unfunded actuarial accrued liabilities are amortized to produce payments, (principal and interest) which are expressed as a percent of payroll. The amortization periods used for the June 30, 1996 valuations were: a closed 25 year period for the Missouri State Employees Plan (MSEP), a closed 28 year period for the Administrative Law Judges' and Legal Advisors' Plan (ALJLAP), and an open 40 year period for the non-funded Judicial Plan. A three year moving average market value method is used to determine the actuarial value of assets. The investment return rate used is 8.5% per year, compounded annually (net after investment expenses). The inflation rate assumption used is 4.5% per year. Projected salary increase assumptions are based on 4.5% per year for wage inflation plus an additional .7% to 3.7% per year, depending on age, attributable to seniority and/or merit increases. The assumption used for post retirement benefit increases is 4.25% per year after retirement.

**Significant Factors Affecting
Identification of Trends**

1988

Legislation enacted setting the retirement contribution rate for the MSEP at 9.9% for fiscal years 1990 through 1993 unless total revenues (excluding unrealized appreciation of investments) is less than 375% of total expenses in any one year. The Board of Trustees voted to adopt the 9.9% beginning with fiscal year 1989. During 1988, the MSEP received approximately 2,700 members transferring from the Public School Retirement System and approximately 540 members transferring from the Lincoln University Employee Retirement System.

1989

The MSEP total revenues were less than 375% of total expenses for the fiscal year ended June 30, 1989. The Board of Trustees voted to keep the retirement contribution rate set at 9.9% through fiscal year 1993. During 1989 approximately 120 members transferred from the Public School Retirement System to the MSEP.

1990

The Board of Trustees approved a change in the actuarial rate of return assumption from 8% to 8.5% beginning with the valuations performed as of June 30, 1990.

	<u>Amount</u>	<u>% of Payroll</u>
MSEP		
Change in assumptions	\$(16,205,924)	(1.63)%
Other experience and non-recurring items	(2,883,263)	(.29)
ALJLAP		
Change in assumptions	(42,277)	(2.21)
Other experience and non-recurring items	21,234	1.11

1991

The actuarial valuations as of June 30, 1991, reflected the following changes to the computed contribution rates for fiscal year ending June 30, 1993.

	<u>Amount</u>	<u>% of Payroll</u>
MSEP		
Change in benefits	\$719,403	.07%
Other experience and non-recurring items	(411,088)	(.04)
ALJLAP		
Other experience and non-recurring items	43,849	2.26

1992

The actuarial valuations as of June 30, 1992, reflected the following changes to the computed contribution rates for fiscal year ending June 30, 1994.

	<u>Amount</u>	<u>% of Payroll</u>
MSEP		
Change in benefits and assumptions	\$(4,017,939)	(.39)%
Other experience and non-recurring items	2,060,482	.20
ALJLAP		
Change in assumptions	(23,293)	(1.35)
Other experience and non-recurring items	(38,649)	(2.24)

1994

The actuarial valuations as of June 30, 1994, reflected the following changes to the computed contribution rates for fiscal year ending June 30, 1996.

Amount % of Payroll

MSEP

Change in benefits and assumptions	\$31,496,136	2.80%
Other experience and non-recurring items	(12,935,913)	(1.15)

ALJLAP

Change in benefits and assumptions	\$21,359	1.02
Other experience and non-recurring items	(49,420)	(2.36)

1996

The actuarial valuations as of June 30, 1996, reflected the following changes to the computed contribution rates for fiscal year ending June 30, 1998.

Amount % of Payroll

MSEP

Change in benefits and assumptions	\$(1,774,647)	(0.14)%
Other experience and non-recurring items	(1,521,126)	(0.12)

ALJLAP

Change in benefits and assumptions	\$(43,572)	(1.61)
Other experience and non-recurring items	(35,994)	(1.33)

Missouri State Employees' Retirement System

**Missouri State Employees' Retirement System
Schedule of Administrative Expenses
Year Ended June 30, 1996**

	<u>Fiduciary Fund Type - Pension Trusts</u>			<u>Internal Service Fund</u>
	Missouri State Employees' Plan	Administrative Law Judges' and Legal Advisors' Plan	Total (Memorandum Only)	Missouri State Insurance Plan
Personal Service				
Salaries	\$ 1,308,346	\$ 3,234	\$ 1,311,580	\$ 154,288
Employee fringe benefits	324,337	802	325,139	38,545
Total personal service	1,632,683	4,036	1,636,719	192,833
Professional Services				
Actuarial services	166,598	412	167,010	3,820
Attorney services	149,482	369	149,851	0
Auditing services	29,228	72	29,300	0
Banking services	13,015	32	13,047	840
Consulting services	18,549	46	18,595	2,894
Total professional services	376,872	931	377,803	7,554
Communications				
Postage and mailing	90,349	223	90,572	8,035
Telephone	34,240	85	34,325	3,224
Printing	90,909	225	91,134	11,357
Total communications	215,498	533	216,031	22,616
Building and Grounds				
Depreciation	29,793	74	29,867	0
Utilities	26,439	65	26,504	2,751
Maintenance	28,069	69	28,138	1,936
Total building and grounds	84,301	208	84,509	4,687
Equipment				
Depreciation	266,752	659	267,411	0
Maintenance	113,435	280	113,715	13,129
Rental	75,723	187	75,910	7,682
Reimbursed shared expenses	(34,191)	(85)	(34,276)	34,276
(Gain) Loss on sale of equipment	39,538	98	39,636	0
Total equipment	461,257	1,139	462,396	55,087
Travel and Meetings				
Board travel and meetings	20,677	51	20,728	2,220
Staff travel and meetings	104,372	258	104,630	11,781
Vehicle maintenance and operation	1,161	3	1,164	96
Total travel and meetings	126,210	312	126,522	14,097
General				
Educational materials	12,099	30	12,129	1,246
Office supplies	97,202	240	97,442	11,310
Subscriptions and dues	102,385	253	102,638	9,091
Insurance	104,471	260	104,731	11,923
Temporary Help	1,179	3	1,182	0
Physical examinations	482	1	483	0
Miscellaneous	6,939	17	6,956	258
Total general	324,757	804	325,561	33,828
Total administrative expenses	\$ 3,221,578	\$ 7,963	\$ 3,229,541	\$ 330,702

See accompanying Independent Auditors' Report.

Missouri State Employees' Retirement System

**Missouri State Employees' Retirement System
Schedule of Investment Expenses
Year Ended June 30, 1996**

	Missouri State Employees' Plan	Administrative Law Judges' and Legal Advisors' Plan	Total (Memorandum Only)
Investment managers' fees			
Fixed income managers			
Black Rock Financial Management L.P.	\$ 224,445	\$ 555	\$ 225,000
Boatmen's Trust Company	109,729	271	110,000
Hoisington Investment Management Company	134,667	333	135,000
Equity managers			
<i>Domestic equities</i>			
Capital Guardian Trust	316,073	781	316,854
Chancellor Capital Management, Inc.	109,570	271	109,841
Conning Asset Management Company	82,469	204	82,673
Independence Investment Associates	34,556	85	34,641
Investment Advisors, Inc.	465,945	1,152	467,097
Kennedy Capital Management	498,766	1,234	500,000
Montgomery Asset Management	84,292	208	84,500
Seneca, Inc.	288,292	713	289,005
Wilshire Associates, Inc.	342,025	845	342,870
Woodford Gayed Management	339,533	839	340,372
<i>International equities</i>			
Bankers Trust Company	284,394	703	285,097
Silchester International	1,005,389	2,485	1,007,874
Venture capital manager			
Brinson Partners, Inc.	187,405	463	187,868
Total investment managers' fees	<u>4,507,550</u>	<u>11,142</u>	<u>4,518,692</u>
Other investment service fees			
<i>Custodian fees - Bankers Trust Company</i>			
Custodian fees - Bankers Trust Company	397,641	983	398,624
Custodian fees - Boatmen's Trust Company	43,158	107	43,265
<i>Securities lending rebates</i>			
Securities lending rebates	8,650,727	21,383	8,672,110
<i>Securities lending fees - Bankers Trust Company</i>			
Securities lending fees - Bankers Trust Company	398,487	985	399,472
Investment consultant fees - Summit Strategies, Inc.	149,630	370	150,000
Total other investment service fees	<u>9,639,643</u>	<u>23,828</u>	<u>9,663,471</u>
Total investment expenses	<u>\$ 14,147,193</u>	<u>\$ 34,970</u>	<u>\$ 14,182,163</u>

See accompanying Independent Auditors' Report.

Missouri State Employees' Retirement System

**Missouri State Employees' Retirement System
Schedule of Professional/Consultant Fees
Year Ended June 30, 1996**

Professional/Consultant	Nature of Service	Fiduciary Fund Type - Pension Trusts			Internal Service Fund
		Missouri State Employees' Plan	Administrative Law Judges' and Legal Advisors' Plan	Total (Memorandum Only)	
Gabriel, Roeder, Smith & Co.	Actuary	\$ 166,598	\$ 412	\$ 167,010	\$ 3,820
Tompson Coburn	Legal Counsel	137,558	339	137,897	0
Husch & Eppenberger	Legal Counsel	11,498	28	11,526	0
Christopher Pickett	Legal Research	426	2	428	0
KPMG Peat Marwick LLP	Auditor	29,228	72	29,300	0
Central Bank	Banking Service	13,015	32	13,047	840
Jack Pierce	Governmental Pension Consultant	13,417	33	13,450	1,550
Charlesworth & Associates	Risk Consultant	4,328	11	4,339	1,250
Midland Advisory Services	Update Board Minutes	804	2	806	94
Total professional/consultant fees		\$ 376,872	\$ 931	\$ 377,803	\$ 7,554

See accompanying Independent Auditors' Report.

Information on investment management and consulting fees can be found in the Schedule of Investment Expenses on page 36.

Missouri State Employees' Retirement System

Missouri State Employees' Retirement System
Investment Summary
Pension Trust Funds
Year Ended June 30, 1996

Type Of Investment	June 30, 1995				June 30, 1996		
	Cost Value	Market Value	Purchases at cost	Sales And Redemptions at Cost	Cost Value	Market Value	% Total Market
Fixed income							
Treasury bonds, notes and bills	\$ 363,444,117	\$ 379,164,811	\$ 752,145,732	\$ 709,787,574	\$ 405,802,275	\$ 406,522,584	11.82%
Gov't bonds and Gov't mortgage backed securities	239,254,597	247,937,457	2,179,277,098	2,112,635,615	305,896,080	308,616,693	8.97
FHA mortgages	596,780	555,340	227,477	274,335	549,922	554,851	0.02
Corporate bonds	169,072,513	179,190,277	83,342,585	39,288,536	213,126,562	218,595,525	6.35
Convertible bonds	2,096,263	2,174,250	221,900	1,505,383	812,780	909,448	0.03
Collateralized mortgage obligations	7,101,805	7,367,336	464,593,120	456,883,540	14,811,385	14,828,066	0.43
Guaranteed investment contracts	15,500,000	15,500,000	2,192,290	3,500,000	14,192,290	14,192,290	0.41
Total fixed income	797,066,075	831,889,471	3,482,000,202	3,323,874,983	955,191,294	964,219,457	28.03
Common stocks	1,178,496,863	1,419,493,140	1,409,102,638	1,211,653,671	1,375,945,830	1,659,097,539	48.23
Preferred stocks	610,471	680,287	3,558,948	707,446	3,461,973	3,568,351	0.10
International investments							
International equities	19,578,484	21,936,246	293,393,603	58,842,680	254,129,407	277,208,398	8.06
Foreign currency	0	0	371,575,411	371,456,295	119,116	1,472,318	0.04
EAFE index fund	233,365,704	240,182,016	0	26,456,955	206,908,749	242,119,977	7.04
Total international	252,944,188	262,118,262	664,969,014	456,755,930	461,157,272	520,800,693	15.14
Real estate							
Loan and mortgages	18,050,141	21,336,236	0	2,578,639	15,471,502	15,527,238	0.45
Equity holdings	79,767,791	55,667,202	3,160,594	67,840,429	15,087,956	12,436,542	0.36
Closed-end real estate fund	9,472,315	7,523,546	0	815,188	8,657,127	7,173,722	0.21
Total real estate	107,290,247	84,526,984	3,160,594	71,234,256	39,216,585	35,137,502	1.02
Venture capital limited partnerships	25,651,534	21,495,654	0	4,110,833	21,540,701	14,348,891	0.42
Investments (per Statements of Plan Net Assets page 21)	2,362,059,378	2,620,203,798	5,562,791,396	5,068,337,119	2,856,513,655	3,197,172,433	92.94
Short-term investments							
Short-term investment funds	50,812,521	50,812,521	15,075,034,242	14,884,009,557	241,837,206	241,837,206	7.03
Repurchase agreements	612,279	612,279	1,773,050,239	1,772,597,408	1,065,110	1,065,110	0.03
Total short-term investments	51,424,800	51,424,800	16,848,084,481	16,656,606,965	242,902,316	242,902,316	7.06
Total investments	\$ 2,413,484,178	\$ 2,671,628,598	\$ 22,410,875,877	\$ 21,724,944,084	\$ 3,099,415,971	\$ 3,440,074,749	100.00%

See accompanying Independent Auditors' Report.

Note: Due to space limitations and printing costs, a detailed listing of the investment holdings and transactions could not be provided in this annual report; however, the detailed reports are available for review as an appendix to this report at the MOSERS' office.

Missouri State Employees' Retirement System

Missouri State Employees' Retirement System
Investment Summary
Internal Service Fund
Year Ended June 30, 1996

Type of Investment	June 30, 1995			June 30, 1996			% Total Market
	Cost Value	Market Value	Purchases at cost	Sales and Redemptions at Cost	Cost Value	Market Value	
Short-term investment funds	\$ 891,443	\$ 891,443	\$ 10,127,619	\$ 11,019,062	\$ 0	\$ 0	0%
Repurchase agreements	501,218	501,218	159,024,155	158,717,135	808,238	808,238	100
Total investments	\$1,392,661	\$1,392,661	\$169,151,774	\$169,736,197	\$ 808,238	\$ 808,238	100%

See accompanying Independent Auditors' Report.

Note: Due to space limitations and printing costs, a detailed listing of the investment holdings and transactions could not be provided in this annual report; however, the detailed reports are available for review as an appendix to this report at the MOSERS' office.



*Theodore and Clara Bryant
Jefferson City, Missouri*



Investment Section

Investment Consultant's Report



Summit Strategies, Inc.

7700 Bonhomme Ave.
Suite 300
St. Louis, MO 63105
314-727-7211
314-727-6068 Fax



Steve Holmes
Investment Consultant

August 30, 1996

Dear Members:

As the external asset consultant to MOSERS, our job, in its most basic form, is to provide perspective and insight to the Board on investment issues as they steer your retirement assets. The best professional compliment we can receive is, "you put that in a way that I can understand". While Staff and Summit deal with investment terms and concepts every day as a result of our jobs, we can see how the following pages could be intimidating to many people who read it. Therefore, let me try to summarize MOSERS' investment program in a few key points.

Warren Buffett, one of the most successful investors alive today, once put a full page ad in the Wall Street Journal that read, "If you have a solid, profitable business and want to sell it, I may want to buy it. Please describe your business in an understandable way using 500 words or less. If I can't understand it in 500 words, I probably don't want to buy it". This statement says two things. First, while every business owner or investor could spend days telling you what they do, the reality is that any business comes down to the implementation of a few key concepts. Second, for long-term success, the more logical and obvious these concepts are, the better.

So as you flip through this section of charts and tables (by the way, the most thorough disclosure statement I've seen), remember that they are the implementation details of the following central beliefs:

Diversification is Good: In the long run, the more places you can invest, the better off you'll be. MOSERS currently employs investment specialists who can invest in every equity market in the world.

Over-diversification is Bad: While the assets of MOSERS have never been larger and the markets in which MOSERS is participating have never been greater, the number of managers being used is no greater than when MOSERS assets were \$1 billion and only invested in the U.S. Too many managers leads to duplication, mediocrity and unnecessary expense.

Identify Investment Risks, and Manage Them: It is impossible to invest without taking risk of some form. The key is not to avoid risk, but to identify it and to place investments accordingly. For MOSERS, investments are made with a full understanding of the risks they possess and are based on the following long-term judgments:

- ◆ Stocks do better than bonds
- ◆ Cash has no permanent place in a long-term portfolio
- ◆ Global investing is prudent
- ◆ Value stocks do better than growth stocks
- ◆ Small stocks should represent a significant portion of an allocation to equities
- ◆ There is a limited but material place for active fixed income management
- ◆ For large funds, efficient market exposure to stocks and bonds is more effective than creating huge teams of active managers

There is substantial academic, real world and common sense evidence to support each one of these judgments.

Missouri State Employees' Retirement System

Watch the Nickels and Dimes and the Dollars will take care of themselves: You'll see all kinds of tables on the following pages that show fees and commission levels. As a reader, you should remember two things:

1. Through aggressive fee negotiation, large use of "index" managers and the most aggressive trading cost reduction program we've seen, MOSERS is run very efficiently.
2. Where money is spent, it is being done wisely. While the amount spent per dollar invested has never been lower, the internal capabilities of the MOSERS Investment Staff have never been higher. This means there is a group of investment professionals armed with technical tools to rival any money management firm spending every day overseeing, improving, and in one case, managing the assets of MOSERS. These professionals can and do make a material difference in the quality and efficiency of the investment process for over \$3 billion.

Regardless of the simplicity of the concepts, the implementation of these ideas when over \$3 billion is involved gets very complicated. However, if these common sense beliefs hold true in the long run, MOSERS will see the long-term success that Fiscal Year 1995-1996 has provided.

As always, it is a pleasure to serve your retirement system.

Sincerely,



Stephen P. Holmes, CFA
Managing Director, Consulting

Chief Investment Officer's Report



Board of Trustees

*Thomas Hodges
Chairman*

*Bob Holden
Vice Chairman*

Rep. Richard Franklin

Richard Hanson

Bradley Ketcher

Janette Lohman

Donald Martin

Bryan Ornburn

Sen. John Russell

Sen. John Scott

Rep. Bill Skaggs

*Gary Findlay
Executive Director*

*Rosemary Eppenauer
Asst. Executive Director*

*906 Leslie Boulevard,
P.O. Box 209
Jefferson City, Missouri 65102
Phone: (573) 751-2342
(800) 827-1063*

*MO Relay:
(800) 573-2466 (Voice)
(800) 573-2966 (TT)*

August 30, 1996



Rick Dahl
Chief Investment
Officer

Dear Members,

As of this report, your pension system is one of the 200 largest employee benefit funds in the United States with total assets very close to \$3.25 billion. During the year the asset base grew by over \$450 million with the total fund generating returns of 16.5%. MOSERS' return for the year was better than seventy-five percent of the funds in our peer group which includes public plans with assets greater than \$1 billion. Once again, as in FY 95 we have experienced an outstanding year in asset growth and are very pleased with the results.

Since MOSERS has experienced back to back years of exceptional asset growth, a normal reaction on the part of interested parties might be to anticipate similar future exceptional performance. At MOSERS, we believe rising expectations are one of the greatest enemies of long-term investment success because they lead to inappropriate investment behavior when those expectations are not met. As markets decline after long periods of strength, investors' emotions tend to override rational decisions and the panic that ensues causes selling of good investments at or near market lows. At MOSERS we prevent emotions from overriding rational decisions using two important investment concepts; (i) rebalancing (the periodic movement of funds from one asset or asset class to another) and (ii) market education. Our rebalancing policy mechanically requires us to move money from investments which have performed well in the most recent past to investments which have not. In other words, if U.S. stocks increase in value to where they represent more than a targeted percentage of our total assets, then we will move money from U.S. stocks to other asset classes that have moved below their targets. This investment approach has served us well – in everyday language this approach might commonly be referred to as a disciplined approach of buying low and selling high.

With respect to market education, it is our belief that the more we know about the history of the markets the easier it will be to prevent knee-jerk reactions during times of major market turbulence. The following are two examples of factual observations we have made from studying market history:

- ◆ Since the end of the Second World War there have been ten instances when the Dow Jones Industrial Average (DJIA) has declined from its peak by 20% or more. The average of these ten declines is over 28%. From this we can conclude that "on average" a decline of this magnitude will happen once every five years. Now, in my opinion, it is too simplistic to assume that every five years the markets will decline by 20% or more. However, I would also caution against assuming that, for one reason or another, there has been an "investment paradigm shift" which will cause history not to be repeated.

- ◆ Since September 1990 (basically the end of the last correction greater than 20%) the amount of money in equity mutual funds has increased by 500%. This means that more than eighty-five cents of every dollar now in equity mutual funds has appeared there since the end of 1990 and has not seen a major correction.

Both of these observations could be viewed as bearish U.S. stock market signals, and from them one might conclude that it would be timely to remove assets from U.S. stocks. However, I would submit just the opposite and one final set of historical information will explain why. In reviewing S&P 500 returns back to 1925 we observe only one fifteen year period in which an investor would have lost money by remaining fully invested the entire time (Sep. 1929 to Aug. 1944) and the amount of the loss would have been less than 1%. This is compelling evidence that the long-term trend in stock prices is upward and that if you are an investor with a time horizon of fifteen years or more such as MOSERS, the best strategy is to stay fully invested. Market timing has not been proven to work over the long-term and missing one major upward move in stock prices like the one experienced since December 31, 1994, (S&P 500 up 51%) significantly retards long-term capital growth.

In closing, I would like to discuss one last investment concept utilized at MOSERS which could arguably be the most important to any successful long-term investment strategy. This concept is called diversification or investing among asset classes (stocks, bonds, real estate, cash) which do not move in the same direction at the same time. The first thing we are taught in Investments 101 is that risk and return are highly correlated. In other words, if we as investors take on additional risk we expect to be compensated through additional return; otherwise, there would be no reason to accept the higher risk levels. However, by employing diversification to reduce volatility, MOSERS, or any investor, can actually obtain more expected return per unit of risk or reduce the risk per unit of expected return by combining asset classes instead of selecting investments from just one class. In any type of investment activity there is no way to eliminate all risks. The key is to mitigate the potential negative impact of those risks by adoption of procedures and policies such as those in place at MOSERS.

Until next year,

Rick Dahl

Rick Dahl, CFP
Chief Investment Officer

Investment Manager Portfolios by Asset Class
Year Ended June 30, 1996

	Market Value June 30, 1995	Net Flows In/Out of Sector	Income Earned	Change in Market Value	Market Value June 30, 1996	Percent of Total Fund
<i>Passive U.S. Stock Manager Portfolios</i>						
Large Company Stock Portfolios	\$ 717,589,668	\$ (93,953,033)	\$ 19,331,192	\$ 156,636,479	\$ 799,604,306	24.6%
Medium/Small Company Stock Portfolios	231,226,255	29,855,690	10,946,906	35,434,758	307,463,609	9.5
Total Passive U.S. Stock Manager Portfolios	\$ 948,815,923	\$ (64,097,343)	\$ 30,278,098	\$ 192,071,237	\$ 1,107,067,915	34.1%
<i>Active U.S. Stock Manager Portfolios</i>						
Large Company Stock Portfolios	\$ 300,906,679	\$ (115,640,253)	\$ 5,781,229	\$ 38,577,443	\$ 229,625,098	7.1%
Medium/Small Company Stock Portfolios	201,421,497	89,235,221	4,613,767	66,589,067	361,859,552	11.1
Total Active U.S. Stock Manager Portfolios	\$ 502,328,176	\$ (26,405,032)	\$ 10,394,996	\$ 105,166,510	\$ 591,484,650	18.2%
Total U.S. Stock Manager Portfolios	\$ 1,451,144,099	\$ (90,502,375)	\$ 40,673,094	\$ 297,237,747	\$ 1,698,552,565	52.3%
<i>Non-U.S. Stock Manager Portfolios</i>						
Passive EAFE Index Portfolio	\$ 368,182,059	\$ (156,000,000)	\$ 2,430	\$ 29,935,502	\$ 242,119,991	7.4%
Active Value Non-U.S. Stock Portfolio	221,502,605		1,269,121	36,164,016	258,935,742	8.0
Total Non-U.S. Stock Manager Portfolios	\$ 368,182,059	\$ 65,502,605	\$ 1,271,551	\$ 66,099,518	\$ 501,055,733	15.4%
Total Stock Portfolios	\$ 1,819,326,158	\$ (24,999,770)	\$ 41,944,645	\$ 363,337,265	\$ 2,199,608,298	67.7%
<i>Fixed Income Portfolios</i>						
Government Bond Portfolio	\$ 435,636,748	\$ 15,946,042	\$ 28,428,905	\$ (21,292,647)	\$ 458,719,048	14.1%
Corporate Bond Portfolio	170,356,004	7,673,706	12,287,655	(5,706,697)	184,610,668	5.7
Mortgage & Asset Backed Securities Portfolio	241,549,558	8,660,059	23,807,092	1,801,136	275,817,845	8.5
Total Fixed Income Portfolios	\$ 847,542,310	\$ 32,279,807	\$ 64,523,652	\$ (25,198,208)	\$ 919,147,561	28.3%
<i>Real Estate Portfolios</i>						
Equity Real Estate Portfolio	\$ 58,819,429	\$ (64,679,835)	\$ 3,017,325	\$ 15,279,622	\$ 12,436,541	0.4%
Notes and Mortgages Portfolio	21,336,236	(2,578,639)	1,868,228	(5,163,263)	15,462,562	0.4
Equity Real Estate Commingled Fund	7,523,546	(815,188)	-	465,364	7,173,722	0.2
Total Real Estate Portfolios	\$ 87,679,211	\$ (68,073,662)	\$ 4,885,553	\$ 10,581,723	\$ 35,072,825	1.0%
<i>Other Portfolios</i>						
Illiiquid Assets Portfolio *	\$ 21,195,208	\$ (6,983,556)	\$ 1,062,620	\$ 298,350	\$ 15,572,622	0.5%
Venture Capital Portfolio	22,745,798	(13,121,918)	425,582	5,071,967	15,121,429	0.5
Cash Reserve Portfolio	3,489,131	54,423,581	2,614,609	3,513,094	64,040,415	2.0
Total Other Portfolios	\$ 47,430,137	\$ 34,318,107	\$ 4,102,811	\$ 8,883,411	\$ 94,734,466	3.0%
Total All Portfolios	\$ 2,801,977,816	\$ (26,475,518)	\$ 115,456,661	\$ 357,604,191	\$ 3,248,563,150	100.0%
* includes FHA Mortgages and Guaranteed Investment Contracts						
Reconciliation to Statement of Plan Net Assets, page 21 of Financial Section.						
Total portfolio value					\$ 3,248,563,150	
Short-term investment funds					(241,837,206)	
Accrued interest and dividends					(18,150,697)	
Foreign exchange receivable					(28,080,510)	
Tax reclaim receivables - net of reserves					(247,110)	
International trade receivables					(442,430)	
Accounts receivable - securities sold					(155,477,126)	
Foreign exchange payables					28,080,510	
International trade payables					1,042,987	
Accounts payable - securities purchased					163,235,984	
Liability for securities lending collateral					200,420,205	
Liability for real estate escrow deposits					64,676	
Investments per Statement of Plan Net Assets					\$ 3,197,172,433	

Introduction

The members of the MOSERS' Board of Trustees are charged with the ultimate fiduciary responsibility for investment of System assets. In carrying out their responsibilities they must adhere to State law with respect to the duties of investment fiduciaries. Accordingly they are required to "discharge their duties in the interest of plan participants" and "act with the same care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a similar capacity and familiar with those matters would use in the conduct of a similar enterprise with similar aims."

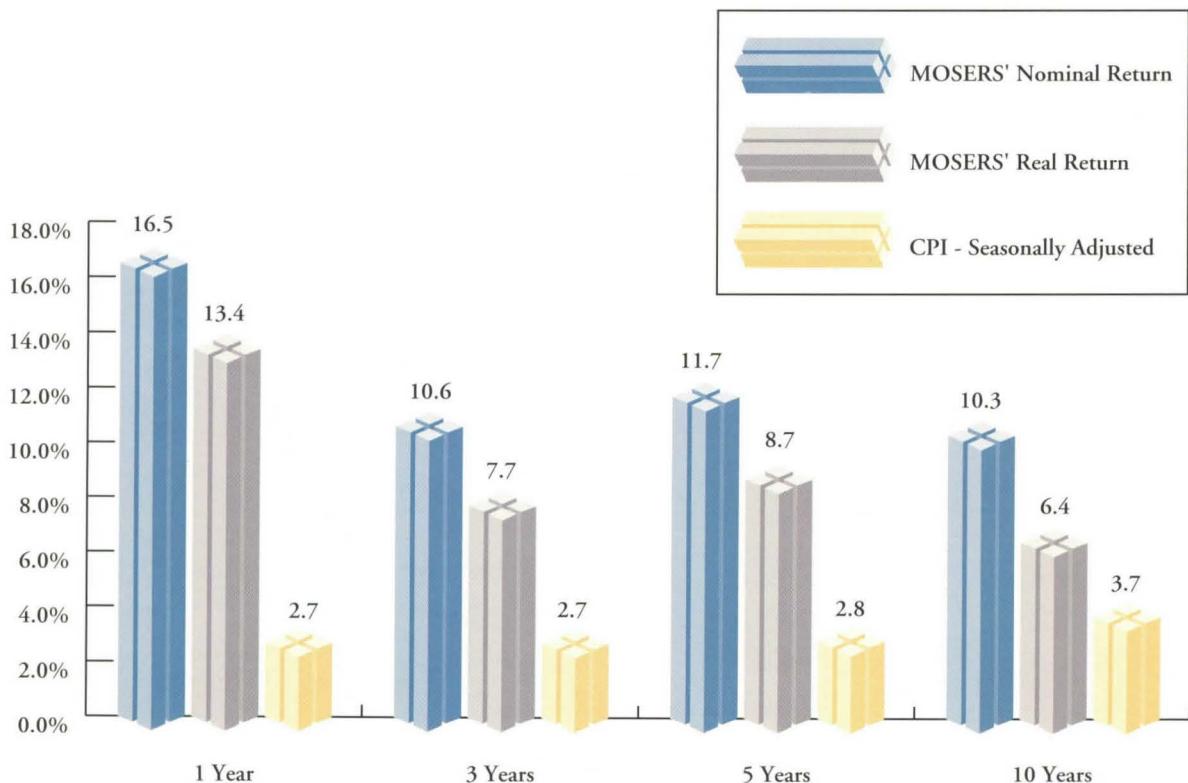
Guiding Principles

In an attempt to clarify the complexity of the above statement, the Board has adopted the following principles which guide all investment related decisions:

- ◆ Preserve the long-term corpus of the fund.
- ◆ Maximize total return within prudent risk parameters.
- ◆ Act in the exclusive interest of the Members of System.

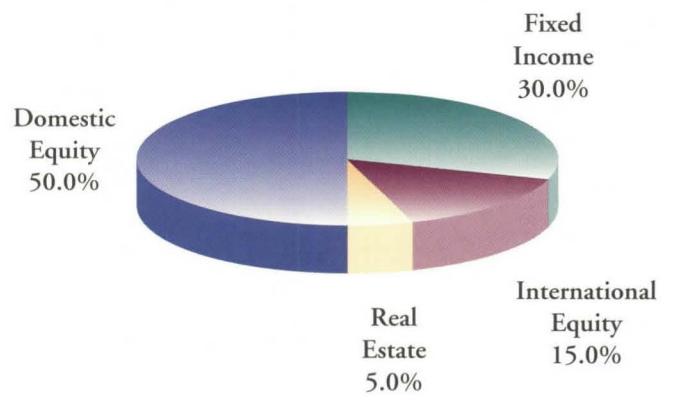
Investment Objective

The investment objective established by the Board, as a long-term goal, is to achieve a real rate of return of at least 4.0% per year. The real rate of return is defined as the rate by which the long-term total return on System assets exceeds the long-term inflation rate. As can be seen from the graphic below, this objective was achieved in Fiscal Year (FY) 96 and has successfully been achieved over longer periods of time.



CPI Source: US Department of Labor Bureau of Labor Statistics - Seasonally adjusted.

MOSERS Real Return is the excess return over this indicator utilizing the formula $\text{Real} = (1 + \text{Nominal})/(1 + \text{CPI}) - 1$.

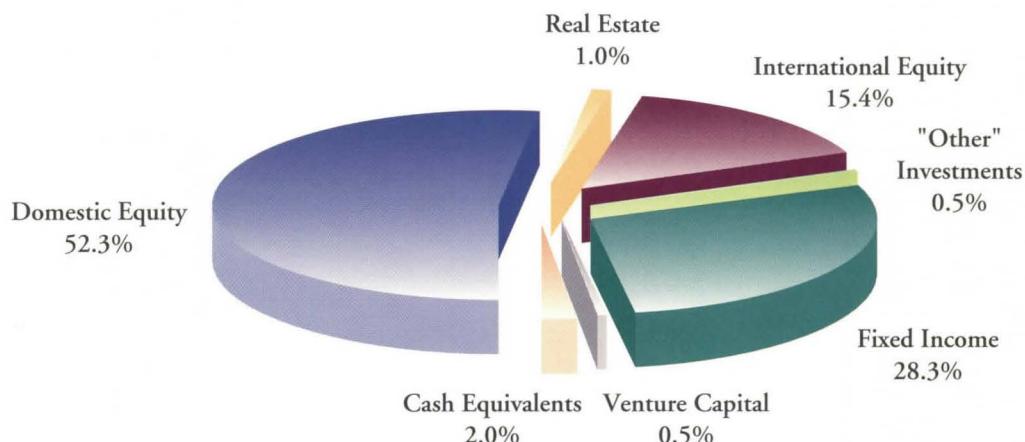


Strategic Asset Allocation

MOSERS' assets are divided into the following general asset classes: domestic equities, international equities, domestic fixed income and real estate. It is common practice to construct portfolios using a combination of general asset classes in order to improve the risk/return profile of the fund. This concept is called diversification. Studies indicate that between 85-90% of an investment portfolio's return can be attributed to the asset allocation decision.

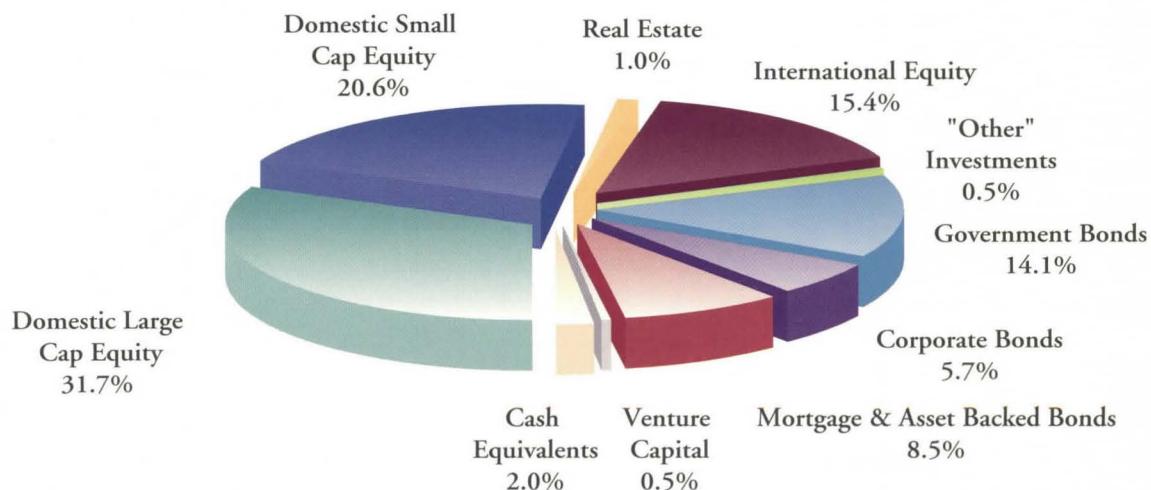
MOSERS' target asset allocation is depicted in the pie chart to the left.

Due to the fact that different asset classes seldom move in lock step, it is reasonable to expect that over time the actual allocation will differ from that of the target. The following chart depicts MOSERS' actual asset mix as of June 30, 1996.



Other - includes FHA Mortgages and Guaranteed Investment Contracts.

Within each general asset class there exist numerous investment styles and philosophies. These within-class allocations are generally subject to higher return volatility than the general asset classes, however when aggregated they allow for an additional level of diversification. The following chart depicts MOSERS' actual within class asset mix as of June 30, 1996.

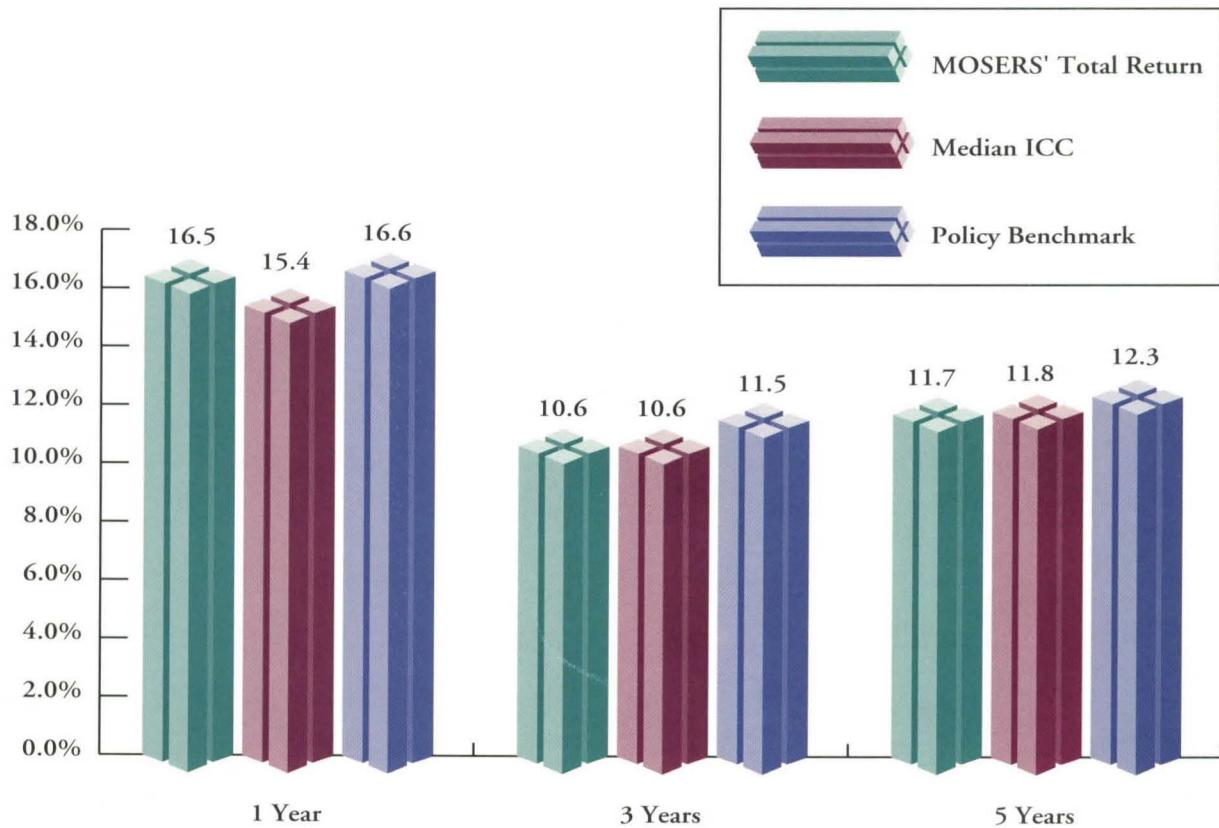


Other - includes FHA Mortgages and Guaranteed Investment Contracts.

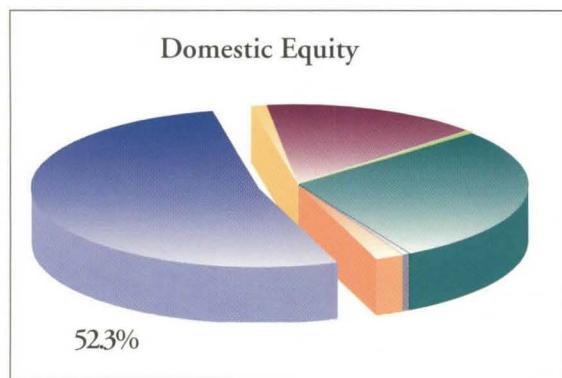
Total Fund Investment Returns

MOSERS' total fund return for the fiscal year was 16.5%. This return compared favorably with the median return of 15.4% produced by the Independent Consultants Cooperative (ICC) universe of public pension plans having assets in excess \$1 billion. The ICC is a cooperative consisting of thirteen independent investment consultants across the United States and one major custodial bank that collectively provide performance data in order to create a universe of peer returns. While MOSERS' return was favorable against our peers, the Fund slightly underperformed the System's 16.6% policy benchmark return. The policy benchmark return is the return that would have been achieved had MOSERS passively implemented the Fund's policy asset mix decision through index funds. The underperformance of the Fund relative to the policy benchmark was primarily the result of the U.S. stock portfolio (MOSERS' largest asset class) underperforming the broad U.S. stock market as measured by the Russell 3000. (Refer to Domestic Equity Investment Returns on page 52 for further information.)

The following graph shows one year results as described above and also includes total fund return comparisons for three and five year time periods.



Policy Benchmark = 50% Russell 3000, 30% Lehman Aggregate, 15% EAFE, 5% Russell NCREIF



Summary of Domestic Equity Investments

U.S. stocks, with a target allocation of 50%, are employed by the Fund primarily because their historical return premiums versus inflation will, if realized in the future, help preserve and enhance the Fund's ability to achieve a long-term real rate of return in excess of the 4% objective set by the Board. The MOSERS' U.S. stock investment portfolio will emphasize equity securities issued by publicly held corporations domiciled in the United States.

Investment Portfolio Structure

As of June 30, 1996, 65.2% of the U.S. stock portfolio was passively managed while 34.8% was managed actively. Large company stocks represented 60.6% while medium/small company stocks represented 39.4%. The stocks within the MOSERS' U.S. stock portfolio can be classified by style as follows:

45.4% value, 27.5% core and 27.1% growth. In September 1995 this portfolio was restructured to be smaller in capitalization and to have a higher concentration of value (lower valuation) stocks. The portfolio statistics section below reflects this restructuring.

Market Value

As of June 30, 1996, the MOSERS' U.S. stock portfolio had a market value of \$1,698.6 million, representing 52.3% of the total fund.

Domestic Equity Portfolio Statistics

The following table displays the statistical characteristics of the MOSERS' U.S. stock portfolio as of June 30, 1996, with comparisons shown for the prior fiscal year and to the Russell 3000.

Characteristic	June 30, 1996 MOSERS'—U.S. Stocks	June 30, 1996 Russell 3000	June 30, 1995 MOSERS'—U.S. Stocks
Number of Securities	982	3000	1325
Average Market Capitalization	\$18.5 billion	\$26.7 billion	16.5 billion
Portfolio Yield	2.3%	2.0%	2.2%
Portfolio P/E	15.3x	20.2x	15.7x
Portfolio Beta vs. S&P500	.94	1.02	1.02
Price/Book Ratio	3.3x	3.0x	3.6x
Five Year Earnings Growth	13.0%	13.2%	11.9%

Ten Largest Holdings June 30, 1996	Market Value	% of Total U.S. Stocks	Ten Largest Holdings June 30, 1995	Market Value	% of Total U.S. Stocks
General Electric	\$ 25,747,400	1.5%	Exxon Corp.	\$ 29,069,250	2.0%
Coca Cola	21,900,875	1.3	General Electric	18,660,125	1.3
AT&T Corp.	20,141,903	1.2	Philip Morris	17,146,425	1.2
Intel Corp.	19,953,105	1.2	Intel Corp.	16,917,234	1.2
IBM	14,761,890	0.9	AT&T Corp.	14,459,523	1.0
Merck & Co.	14,234,988	0.8	Merck & Co.	13,068,090	0.9
GTE Corp.	14,158,415	0.8	Coca Cola	12,966,939	0.9
Amoco	13,747,025	0.8	Microsoft Corp.	12,110,250	0.8
Ford Motor Co.	13,425,071	0.8	Ford Motor Co.	11,781,000	0.8
General Motors	13,205,466	0.8	Amoco	11,033,100	0.8

Missouri State Employees' Retirement System

Domestic Equity Portfolio Investment Advisors

As of June 30, 1996, MOSERS had contracts with seven external investment advisors for the management of U.S. stock portfolios. Five of these managers are managing active portfolios that are expected to add incremental return over an established benchmark through stock selection, sector selection or some combination of the two. The other two are passive managers whose portfolios are expected to provide broad market diversification and are designed to track the performance of the market at a low cost.

During FY 96 the MOSERS' Board of Trustees terminated three active managers and gave the proceeds to existing managers already under contract with MOSERS who had management styles similar to those of the terminated managers. The economies of scale associated with placing additional funds with existing managers will save the system some \$750,000 annually in management fees.

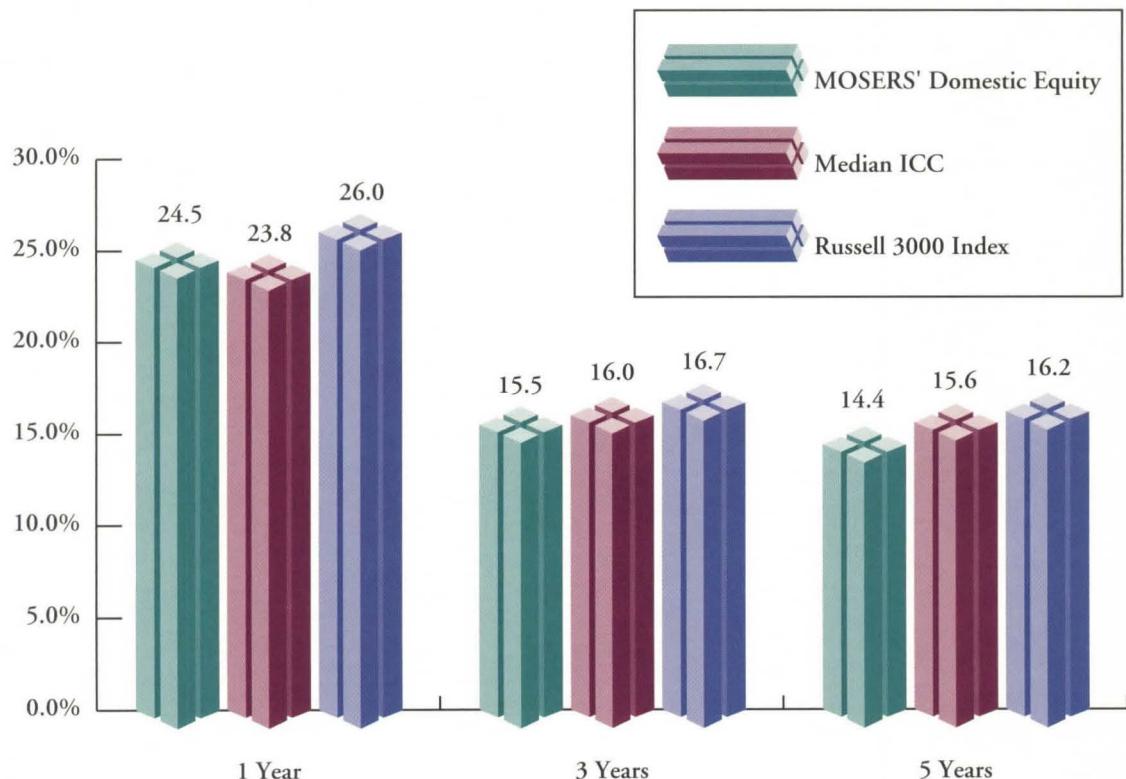
The following is a list of firms that were under contract with MOSERS during all or some portion of the last two fiscal years (95-96) for management of U.S. Stocks. Also displayed in this table are the managers' investment styles, FY 96 ending portfolio market values and the managerial fees paid in both the current fiscal year (FY 96) and the previous fiscal year (FY 95).

Investment Advisor	Investment Style	Portfolio Market Value as of June 30, 1996	FY 96 Mgmt Fee	FY 95 Mgmt Fee
Conning Asset Management (formerly General American Investment Management Co.)	Passive S&P 500	\$ 345,774,113	\$ 82,673	\$ 95,516
Wilshire Asset Management	Passive Wilshire Large-Cap Value Wilshire Large-Cap Growth Wilshire Mid-Cap Wilshire Mid-Cap Value	221,237,142 232,593,051 0.00 307,463,609	100,440 100,914 41,316 100,200	106,371 36,289 162,950 0.00
SENECA, Inc.	Active Large-Cap Value	118,729,666	289,005	173,155
Woodford Gayed Capital Management (formerly Woodford Capital Management)	Active Large-Cap Growth	110,895,433	340,372	153,762
Investment Advisors, Inc.	Active Mid-Cap Growth	117,551,397	467,097	330,728
Kennedy Capital Management	Active Small-Cap Value	123,285,660	500,000	385,229
Capital Guardian Trust Co.	Active Small-Cap Core	121,022,495	316,854	169,273
Independence Investment Associates	Active Large-Cap Value	0.00	34,641	236,330
Chancellor Capital Management	Active Large-Cap Growth	0.00	109,841	561,192
Montgomery Asset Management	Active Small-Cap Growth	0.00	84,500	344,526
Total		\$ 1,698,552,566	\$ 2,567,853	\$ 2,755,321

Domestic Equity Investment Returns

MOSERS' U.S. stock return for the fiscal year was 24.5%. This was below the return of its policy benchmark, the Russell 3000 Index, which finished at 26.0%. Within the ICC universe of U.S. stock returns for public pension plans, the MOSERS' return was slightly better than the median return of 23.8%. The shortfall compared to the Russell 3000 is largely attributable to the more conservative and smaller company exposure resulting from the restructuring in September of 1995. This restructuring was based on historical performance and the expectations that, over the long-term, smaller companies and companies with conservative fundamental valuation characteristics, defined as "value" (low price/book, high dividend yield, low p/e) have generated and will continue to generate higher returns with lower volatility, relative to larger companies with higher valuations. While there will be short-term periods, such as FY 96, when this structure lags the broad market, it is our belief that, over the long-term, the structure of the MOSERS' U.S. stock portfolio will serve the System well.

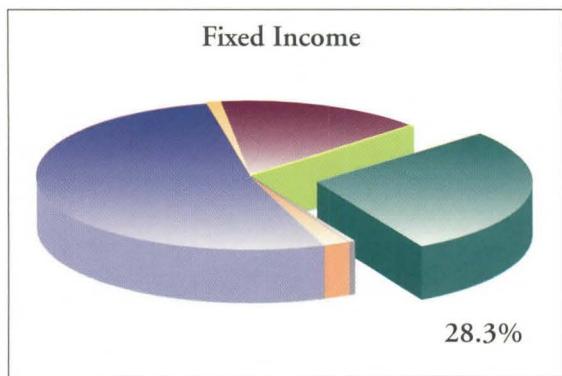
The following graph shows one year results as described above and also includes U.S. stock return comparisons for three and five year time periods.



Missouri State Employees' Retirement System

**Schedule of Brokerage Commission Paid
Agency Trades Only
Year Ended June 30, 1996**

Brokerage Firms	Shares Traded	Dollar Volume of Trades	Commission	
			Dollar Amount	Per Share
Salomon Brothers Inc.	14,405,400	\$ 582,319,784	\$ 256,249	\$ 0.018
BT Brokerage Corporation	10,045,554	328,894,477	150,697	0.015
Instinet Corp.	6,320,918	233,577,659	107,841	0.017
Investment Technology Group Inc.	4,952,880	171,463,432	101,385	0.020
Jefferies & Company Inc.	4,314,101	117,348,099	137,467	0.032
Cantor Fitzgerald & Co. Inc.	4,292,511	102,475,690	146,518	0.034
Weeded & Co.	3,446,855	91,646,915	108,466	0.031
Lynch Jones & Ryan	2,494,646	81,632,646	63,184	0.025
DE Shaw	2,541,446	66,543,651	25,414	0.010
Bear Stearns & Co.	2,133,124	48,942,013	73,754	0.035
U.S. Clearing Corp.	1,756,250	46,951,649	60,856	0.035
Rochdale Securities Corp.	1,193,930	45,690,990	24,236	0.020
U.S. Clearing Institutional	1,045,600	35,267,260	40,712	0.039
BHF Securities Corporation	938,600	31,082,298	27,381	0.029
Morgan Stanley & Co. Inc.	927,906	25,760,425	28,501	0.031
Jackson Partners & Associates	616,000	20,198,255	28,850	0.047
Pershing Securities	618,021	18,966,901	28,408	0.046
Sanford C. Bernstein & Co. Inc.	403,024	13,422,464	20,398	0.051
Sherwood Securities Corp.	420,450	12,417,268	12,425	0.030
Execution Services Inc.	348,200	11,735,955	15,997	0.046
Gardner Rich & Co.	292,200	10,542,502	10,282	0.035
Bernard Herold & Co. Inc.	249,000	9,167,888	7,470	0.030
First Boston Corporation	234,100	7,004,311	9,867	0.042
Jones & Associates	281,250	6,979,152	14,458	0.051
Lehman Brothers Inc.	348,900	6,827,280	17,727	0.051
Golman Sachs & Co.	186,640	6,395,832	9,684	0.052
Prudential Bache Securities	179,100	6,132,055	9,496	0.053
Bridge Trading Co.	493,212	5,949,942	14,955	0.030
Correspondent Services Corp.	282,400	5,728,064	11,195	0.040
Merrill Lynch	133,848	4,393,874	7,353	0.055
Paine Weber	131,000	4,344,521	7,591	0.058
Sutro and Company Inc.	180,000	4,338,579	8,673	0.048
Spear, Leeds & Kellogg	163,000	4,163,000	4,890	0.030
Alpha Management Inc.	197,200	3,980,944	4,121	0.021
Smith Barney Inc.	139,600	3,731,427	7,261	0.052
Lewco Securities Corp	172,600	3,653,941	8,948	0.052
JP Morgan Securities Group	115,900	3,615,510	6,934	0.060
Oppenheimer & Co. Inc.	134,200	3,587,685	7,817	0.058
Cowen & Co.	72,336	3,571,922	4,020	0.056
Broadcourt Capital Corp.	227,900	3,356,355	12,087	0.053
Others (includes 78 firms)	2,651,539	45,671,595	136,285	0.051
Total	70,081,341	\$ 2,239,474,210	\$ 1,779,853	\$ 0.025
Total principal trades excluded above:	33,878,080	\$ 467,982,738		



Summary of Domestic Fixed Income Investments

Domestic fixed income, with a target allocation of 30%, serves to diversify the equity risk component within the Fund. Bonds have traditionally been regarded as a hedge in a disinflationary or deflationary environment. Additionally, the cash flow characteristics of bonds are highly predictable both in terms of income generation and return of principal. In most periods, fixed income investments have provided returns in excess of the inflation rate, although not of the magnitude of stocks. The cash flow predictability of bonds, however, makes the asset class less volatile than equities.

Investment Portfolio Structure

As of June 30, 1996, 39.9% of the fixed income portfolio was passively managed. Another 50.1% was managed in an enhanced index style, in which manager portfolios replicated certain sub-sectors of the bond market,

but had some limited trading flexibility with the expectation of capturing additional returns for their respective portfolios. The remaining 10% was managed in an active duration management style. It should be noted that the portfolio structure, as described above, was put in place in December of 1994.

The major sectors of the fixed income market can be divided among four classes. The Treasury/Agency (Governments) category, the highest quality and most liquid sector, represents 52% of the bond market. Corporates comprise 17%, mortgages account for 30%, with the remaining 1% apportioned to the Asset-backed securities sector. The MOSERS' portfolio is structured in such a way as to be approximately market weighted in each of these sectors in the aggregate, with each manager's portfolio being confined to one specific class, so as to capitalize on their areas of expertise. Overall portfolio duration will vary from the broad market by as much as a year, either longer or shorter depending upon the portfolio profile of the active duration manager.

Market Value

As of June 30, 1996, the MOSERS' domestic fixed income portfolio had a market value of \$919.1 million, representing 28.3% of the total fund.

Domestic Fixed Income Statistics

The following table displays the statistical characteristics of the MOSERS' bond portfolio as of June 30, 1996 with comparisons shown for the prior fiscal year and to the portfolio's policy benchmark, the Lehman Aggregate Index.

Characteristic	June 30, 1996 MOSERS'—Fixed Income	June 30, 1996 Lehman Aggregate	June 30, 1995 MOSERS'—Fixed Income
Total Number of Securities	148	5,492	135
Current Yield	7.1 %	7.1 %	6.9 %
Yield to Maturity	7.0 %	7.0 %	6.7 %
Average Life/Maturity	10.5 years	8.8 years	10.3 years
Adjusted Duration	5.7	4.8	5.8
Quality	AAA	AAA	AAA

Ten Largest Holdings June 30, 1996	Market Value	% of Total Bonds	Ten Largest Holdings June 30, 1995	Market Value	% of Total Bonds
USTB 6% 2/15/26	\$ 47,065,324	5.1%	USTB 6.25% 8/15/23	\$ 40,971,822	4.8%
FNMA 7% 2026	31,017,313	3.4	GNMA 8% 2025	37,521,000	4.4
USTN 7.875% 11/15/99	29,455,746	3.2	FHLMC 8% 2022-2025	30,932,717	3.7
FNMA 7% 2024	27,350,436	3.0	USTB 7.5% 11/15/24	29,883,028	3.5
FHLMC 6.5% 2010-2011	25,505,502	2.8	GNMA 8.5% 2016-2017	28,129,709	3.3
USTN 8.75% 10/15/97	24,824,880	2.7	USTN 8.75% 10/15/97	25,454,880	3.0
USTB 6.875% 8/15/25	24,617,320	2.7	USTN 4.375% 11/15/96	24,535,250	2.9
GNMA 8.5% 2016-2017	23,410,675	2.6	USTN 6.875% 2/28/97	22,865,625	2.7
USTN 4.75% 9/30/98	22,313,680	2.4	USTN 4.75% 9/30/98	22,187,870	2.6
FHLMC 7.5% 2026	16,954,766	1.8	USTN 8% 10/15/96	16,424,960	1.9

key to holdings:

USTB=U.S. Treasury Bond

USTN=U.S. Treasury Note

FHLMC=Federal Home Loan Mortgage Corp.

FNMA=Federal National Mortgage Assoc.

GNMA=Government National Mortgage Assoc.

Missouri State Employees' Retirement System

Domestic Fixed Income Investment Advisors

As of June 30, 1996, MOSERS had contracts with three external investment advisors for the management of 60% of the fixed income portfolio. The remaining 40% is managed internally, using only U.S. Treasury and Government Agency securities. The internally managed portfolio replicates one segment (the Lehman Government Index) of the Aggregate Index, which is the benchmark for the entire fixed income fund. Internal management enables passive participation in a very significant segment of the bond market at a very low cost. Two of the three external advisors manage the other major fixed income segments, namely, Corporates and Mortgage/Asset backed securities. They manage in an enhanced index style, attempting to add value through security and sector selection or slight departures from index characteristics. The other fixed income advisor manages in an active style with the latitude to make significant changes to portfolio duration based upon the firm's outlook for the long-term direction of inflation.

The following is a list of firms that were under contract with MOSERS during all or some portion of the last two fiscal years (95-96) for management of fixed income securities. Also displayed in this table are the managers' investment styles, FY 96 ending portfolio market values and the managerial fees paid in both the current fiscal year (FY 96) and the previous fiscal year (FY 95).

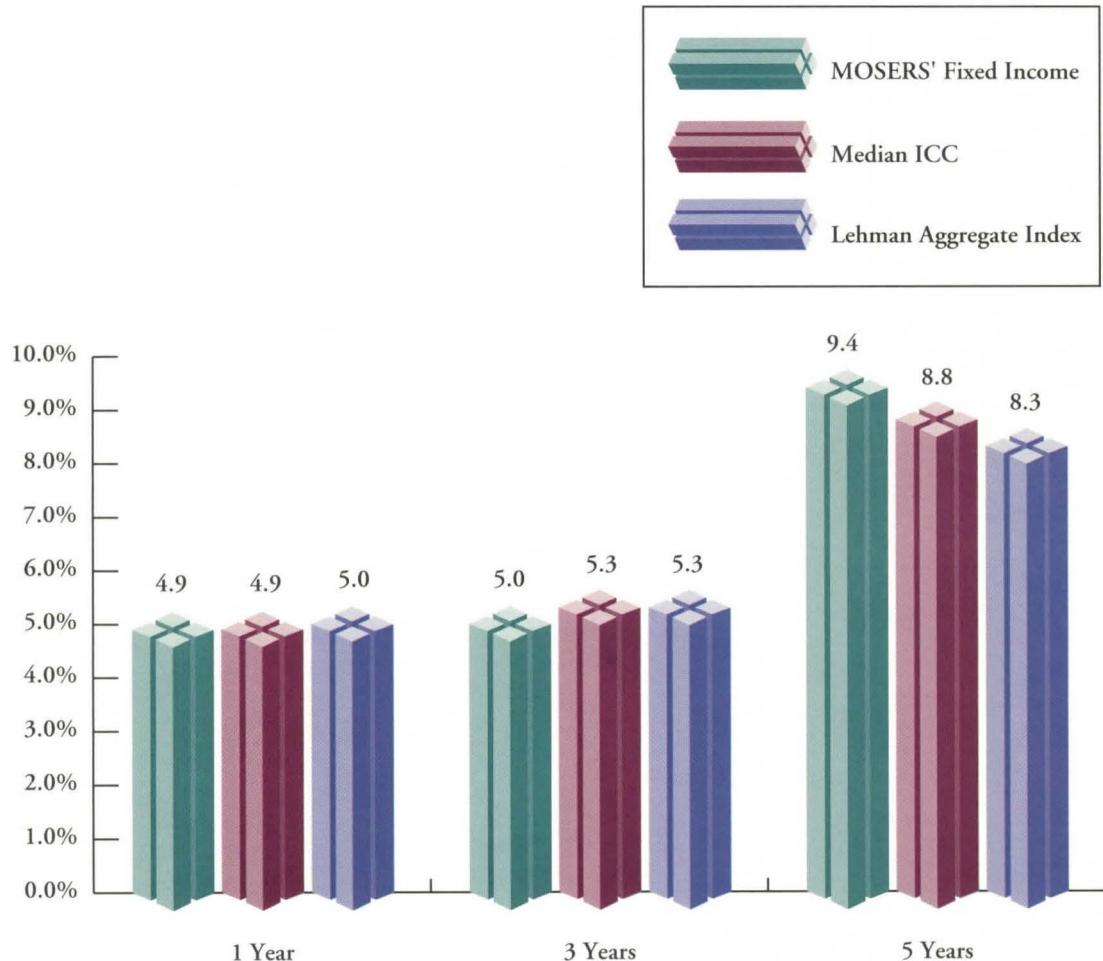
Investment Advisor	Investment Style	Portfolio Market Value as of June 30, 1996	FY 96 Mgmt Fee	FY 95 Mgmt Fee
Boatmen's Trust Co.	Enhanced Index Corporate Bonds	\$ 184,610,668	\$ 110,000	\$ 240,211
Black Rock Financial Management Inc.	Enhanced Index Mortgage and Asset-backed Securities	275,817,845	225,000	142,089
Hoisington Investment Management Co.	Active Duration Treasury Securities	91,854,547	135,000	130,078
Franklin, Spitz & Peters Investment Adv.	Active Duration Treasury Securities	0.00	0.00	69,331
Mississippi Valley Advisors, Inc.	Active Core Bonds	0.00	0.00	121,511
United Missouri Investment Counsel	Active Short Duration Bonds	0.00	0.00	47,897
Total		\$ 552,283,060*	\$ 470,000	\$ 751,117

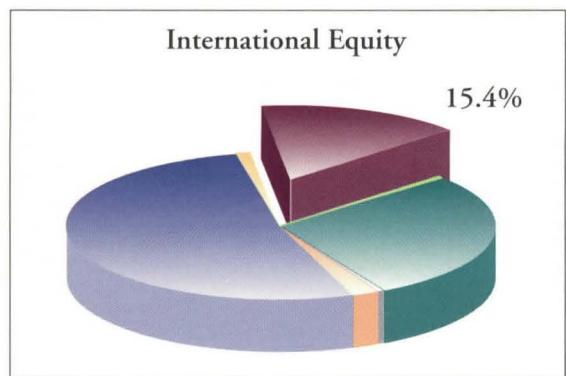
*This total does not include the internally managed government bond portfolio. This portfolio had a market value of \$366,864,501 as of June 30, 1996. Including the internally managed assets, the total portfolio market value is \$919,147,561.

Domestic Fixed Income Investment Returns

MOSERS' fixed income return for the fiscal year was 4.9%, slightly less than the return of its policy benchmark, the Lehman Aggregate Index, which finished at 5.0%. Within the ICC universe of fixed income returns for public pension plans, the MOSERS' return was identical to the median return of 4.9%. Relative to its policy benchmark, MOSERS has historically maintained a longer maturity profile in the fixed income portfolio, and, accordingly, underperformed in FY 96 because interest rates moved up during the fiscal year. Maturity selection is the overriding portfolio decision in explaining fixed income investment performance. The longer maturity portfolio strategy has served the Fund well over the long-term.

The following graph shows one year results as described above and also includes fixed income return comparisons for three and five year time periods.





Summary of International Equity Investments

Non-U.S. stocks, with a target allocation of 15%, are employed by the Fund primarily because their historical return premiums versus inflation will, if realized in the future, help preserve and enhance the Fund's ability to achieve a long-term rate of return in excess of the 4% objective set by the Board. Non-U.S. stocks are also attractive for the diversification benefits they provide to the portfolio. By incorporating non-U.S. stocks into the asset mix, MOSERS expects to achieve overall equity returns which are comparable to that of a U.S. stock portfolio with reduced overall portfolio risk.

Investment Portfolio Structure

As of June 30, 1996, 48.3% of the non-U.S. stock portfolio was passively

managed while 51.7% was managed actively. Non-U.S. stock investments consist of a Morgan Stanley Capital International Europe, Australia and Far East (MSCI EAFE) Index portfolio and one active portfolio. In July, 1995 the Board hired the active manager to complement the EAFE Index portfolio. The decision to hire the active manager was made to further diversify the non-U.S. stock portfolio and to lower MOSERS' exposure to Japan. Japan has been over 40% of the EAFE Index in the past and an exposure of this magnitude to any one country, outside the United States, was a concern. Another component of any international investment is the decision regarding whether or not to hedge currency exposure. The MOSERS' Board of Trustees allows the active manager to hedge currency exposure up to 25%, while the passive portfolio is unhedged.

Market Value

As of June 30, 1996, the MOSERS' non-U.S. stock portfolio had a market value of \$501.1 million, representing 15.4% of the total fund.

International Equity Portfolio Statistics

The following table displays the statistical characteristics of the MOSERS' International stock portfolio as of June 30, 1996, with comparisons shown to the portfolio's policy benchmark, the MSCI EAFE Index and the prior fiscal year.

Characteristic	June 30, 1996 MOSERS'--Non U.S. Stocks	June 30, 1996 MSCI EAFE	June 30, 1995 MOSERS'--Non U.S. Stocks
Number of Securities	1161	1112	1107
Average Market Capitalization	\$5.6 billion	\$5.0 billion	\$4.3 billion
Portfolio Yield	2.3%	2.1%	2.3%
Portfolio P/E	19.8x	26.9x	25.4x
Price/Book Ratio	1.8x	2.3x	1.8x

Ten Largest Holdings June 30, 1996	Market Value	% of Int'l Stocks	Ten Largest Holdings June 30, 1995	Market Value	% of Int'l Stocks
Nestle SA (Switzerland)	\$ 8,222,207	1.6%	Toyota Motor (Japan)	\$ 5,675,472	1.5%
Toyota Motor (Japan)	8,155,898	1.6	Royal Dutch (Netherlands)	5,017,383	1.4
Matshushita Electric (Japan)	5,842,724	1.4	Roche Holdings (Switzerland)	4,836,204	1.3
Gas Y Electricidad (Spain)	5,579,604	1.3	Industrial Bank Of Japan (Japan)	4,696,407	1.3
Fuji Photo Film (Japan)	5,362,619	1.2	Fuji Bank (Japan)	4,477,402	1.2
ABN Amro Holding (Netherlands)	5,285,647	1.2	Dai-Ichi Kangyo Bank (Japan)	4,314,985	1.2
Hitachi Ord (Japan)	5,127,401	1.2	Sumitomo Bank (Japan)	4,172,817	1.1
Ing Groep (Netherlands)	5,061,811	1.2	Glaxo Welcome (UK)	3,258,378	0.9
Sainsbury (UK)	4,954,804	1.2	Tokyo Electric (Japan)	3,147,331	0.8
Sharp Corp. (Japan)	4,886,346	1.1	Nestle SA (Switzerland)	3,124,223	0.8

Missouri State Employees' Retirement System

The following table displays how MOSERS' country exposure compares to MSCI EAFE and how it has changed since June 30, 1995, with the addition of the active non-U.S. stock manager

Country Exposure	June 30, 1996 MOSERS'--Non U.S. Stocks	June 30, 1996 MSCI EAFE	June 30, 1995 MOSERS'--Non U.S. Stocks
Austria	0.7%	0.4%	0.4%
Belgium	1.5	1.1	1.2
Denmark	2.8	0.8	0.8
Finland	2.3	0.5	0.7
France	8.1	6.6	6.2
Germany	8.0	6.8	7.1
Ireland	0.3	0.3	0.3
Italy	4.2	2.8	2.2
Netherlands	6.0	4.2	4.0
Norway	0.9	0.5	0.4
Spain	4.8	1.9	1.7
Sweden	2.1	2.2	1.9
Switzerland	7.8	5.8	5.6
UK	14.2	16.1	16.8
Sub-Total Europe	63.7	50.0	49.3
Australia	2.6	2.8	2.6
Hong Kong	2.3	3.3	3.2
Japan	27.6	39.6	40.9
Malaysia	1.2	2.5	2.4
New Zealand	0.5	0.4	0.4
Singapore	2.1	1.4	1.2
Sub-Total Far East	36.3	50.0	50.7
Total	100.0%	100.0%	100.0%

International Equity Portfolio Investment Advisors

As of June 30, 1996, MOSERS had contracts with two external investment advisors for the management of non-U.S. stock portfolios. One manager is managing an active portfolio that is expected to add incremental return over an established benchmark through stock selection, country selection and small amounts of currency hedging. The other is a passive manager whose portfolio is expected to provide broad market diversification and is designed to track the performance of the developed non-U.S. market at a low cost.

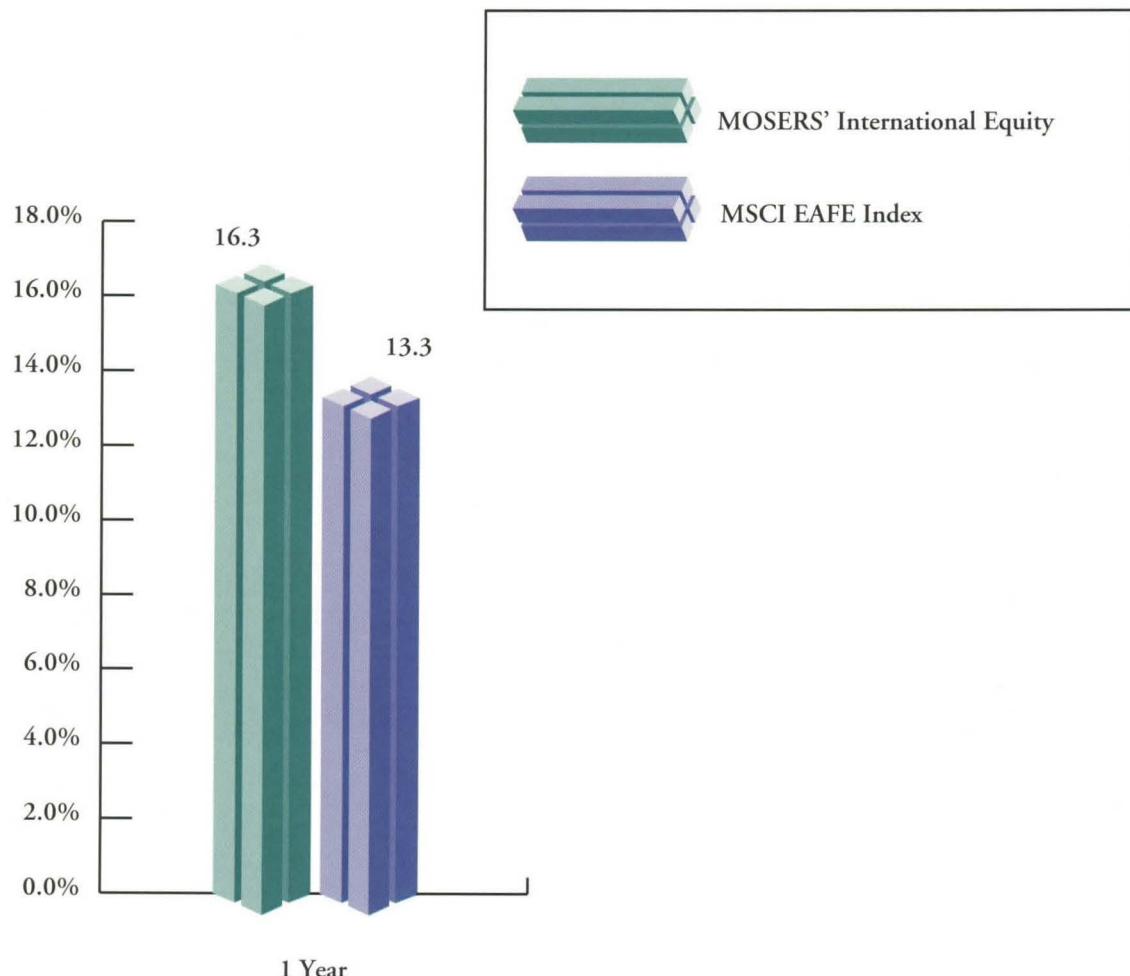
The following is a list of firms that were under contract with MOSERS during all of FY 96 for management of non-U.S. Stocks. Also displayed in this table are the managers' investment styles, FY 96 ending portfolio market values and the managerial fees paid in both the current fiscal year (FY 96) and the previous fiscal year (FY 95).

Investment Advisor	Investment Style	Portfolio Market Value as of June 30, 1996	FY 96 Mgmt Fee	FY 95 Mgmt Fee
Bankers Trust Company	Passive MSCI EAFE Index	\$ 242,119,991	\$ 174,517	\$ 235,813
Silchester International Investors Limited	Active Value	258,935,742	1,007,874	0
Total		\$ 501,055,733	\$ 1,182,391	\$ 235,813

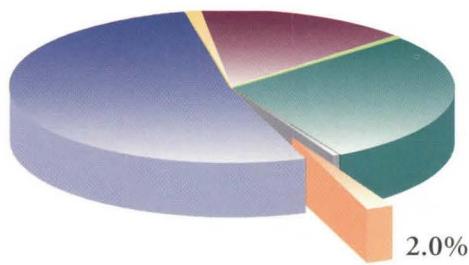
International Equity Investment Returns

MOSERS' non-U.S. stock return for the fiscal year was 16.3%, significantly in excess of its policy benchmark, the MSCI EAFE Index, which finished at 13.3%. The portfolio return was increased by the strong performance of the active manager. Returns on the mostly unhedged non-U.S. stock portfolio were lower than would have been the case with a fully hedged portfolio, due to a strengthening U.S. Dollar over the course of the fiscal year.

The following graph shows one year results as described above. MOSERS' first allocation to non-U.S. stocks did not occur until July 1994, therefore three year and five year returns are not applicable.



Cash



Summary of Cash Investments

Cash investments are employed by the Fund to meet liquidity needs and to allow MOSERS' managers a vehicle for investment of funds during brief periods between the sale of an existing security and the purchase of a replacement.

Investment Portfolio Structure

MOSERS has one cash portfolio which is managed by an external manager. These funds are managed using fixed income securities with investment guidelines designed to achieve preservation of principal, liquidity and the highest credit quality.

Market Value

As of June 30, 1996, the MOSERS' Cash Reserve portfolio had a market value of \$64.0 million, representing 2.0% of the total fund.

Cash Investment Advisor

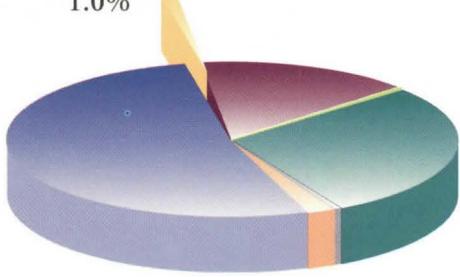
Bankers Trust managed the cash portfolio for the entire fiscal year. The managerial fees paid for this portfolio in FY 96 were \$110,580.

Cash Investment Returns

MOSERS' Cash return for the fiscal year was 6.0%.

1.0%

Real Estate



Summary of Real Estate Investments

MOSERS started investing in Real Estate in the mid-1980's. These investments were made in expectation of receiving high returns, inflation hedging characteristics and a low correlation to domestic stocks and fixed income. The results of this program have been disappointing. In January 1995, the Board of Trustees voted to begin disposition of the real estate assets.

Investment Portfolio Structure

On June 30, 1995 the portfolio consisted of shares in a commingled fund managed by the Trust Company of the West (TCW), five mortgages and 32 properties managed internally. During the year 27 of the properties were sold and two of the loans were paid off. The remaining properties are

currently being prepared for sale or are currently on the market. It is expected that all properties will be sold by June 30, 1997, and the remaining loans will be repaid by January 1998. The commingled fund is also in liquidation and this process should be completed by January 1998.

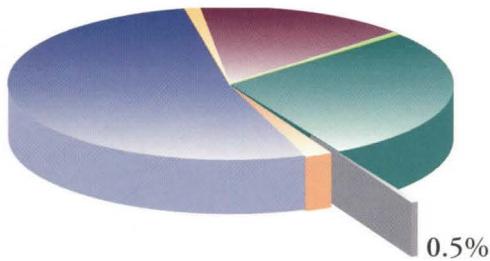
Market Value

As of June 30, 1996, the MOSERS' Real Estate portfolio had a market value of \$35.1 million, representing 1.0% of the total fund.

Real Estate Investment Returns

MOSERS' Real Estate return for the fiscal year was 2.3%, significantly below its policy benchmark, the Russell NCREEF Index, which finished at 8.8%.

Venture Capital



Summary of Venture Capital Investments

MOSERS' Venture Capital investments were first funded in 1985, after the industry had posted several years of extraordinary returns. However, funding for start-up companies became scarce in the late 1980's, and many of MOSERS' projects are maturing into public companies much later than anticipated. Due to the high management expenses, and the illiquidity associated with venture investments, MOSERS has not made any new allocations since 1990.

Investment Portfolio Structure

MOSERS' residual venture capital investment consists of 29 limited partnerships, which are administered by one external manager. MOSERS' staff follows one residual corporate investment from the in-state venture

investment program funded in response to 1987 legislation (Senate Bill 20), which has been rescinded. These partnership investments are being liquidated in accordance with the terms of the partnership agreements, and the proceeds are being allocated to other areas of MOSERS' investment program.

Market Value

As of June 30, 1996 the partnership assets in MOSERS' Venture Capital portfolio had an estimated market value of \$15.1 million, representing 0.50% of the total fund.

Venture Capital Investment Advisor

Brinson Partners was responsible for the original purchase of all limited partnerships and continues to serve in an administrative capacity as the partnerships are liquidated. The managerial fees paid for this portfolio in FY 96 were \$187,868.

Venture Capital Investment Returns

Since inception, the program's internal rate of return (IRR) has been just over 10.5%.

"Other" Investments

0.5%

Summary of "Other" Investments

Included in this portfolio are guaranteed investment contracts (GIC's) and Federal Housing Administration (FHA) mortgages. The GIC's were purchased by a fixed income manager who was terminated when the fixed income portfolio was restructured in September 1994. The decision was made to hold these contracts until maturity due to their attractive yields and lack of liquidity. The FHA mortgages were purchased as part of a mortgage program that was rescinded by the Board in the mid 1970's. Because these loans are individual thirty year residential mortgages their small size is unattractive to institutional mortgage buyers making it difficult for MOSERS to sell them.

Investment Portfolio Structure

MOSERS' "Other" Investments portfolio consists of four guaranteed investment contracts with three different insurance companies, the last of which matures in February 1998. The remainder of this portfolio consists of thirty year residential mortgages. It should be noted that over 95% of this portfolio's market value is in the guaranteed investment contracts.

Market Value

As of June 30, 1996 the "Other" Investments portfolio had a market value of \$15.6 million, representing 0.5% of the total fund.

"Other" Investment Returns

MOSERS' "other" investment return for the fiscal year was 11.7%.

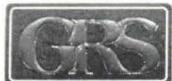


*Roscoe & Marian Self
Springfield, Missouri*



Actuarial Section

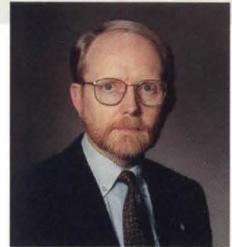
Actuary's Certification Letter



GABRIEL, ROEDER, SMITH & COMPANY

Consultants & Actuaries

24 Woodbine Avenue • Northport, New York 11768 • 516-757-0047 • 800-782-0144 • FAX 516-757-0086



Tom Cavanaugh
Consulting Actuary

August 30, 1996

The Board of Trustees
Missouri State Employees' Retirement System
Jefferson City, Missouri 65101

The primary financial objective of MOSERS is to establish contribution rates which, expressed as a percent of active member payroll, will remain approximately level from generation to generation of Missouri citizens.

In order to determine MOSERS' present reserve position and level contribution rates for the future, annual actuarial valuations are made. The latest completed actuarial valuation was based upon data and benefit provisions in effect as of June 30, 1996. Details of our work are shown in our annual valuation report.

Assumptions concerning future financial experiences are needed for an actuarial valuation. These assumptions are established by the Board after consulting with the actuary. Various assumptions were changed for the 1996 valuation based on results of an experience investigation covering the period of 1991-1995. In our opinion, the assumptions in use produce results which, in the aggregate, are reasonable.

The level percent contribution rate computed as of June 30, 1996 was 10.40% of payroll for 51,425 general state employees and 19.66% of payroll for 46 administrative law judges.

Results of the 1996 actuarial valuation indicated that the actuarial accrued liabilities are approximately 85% covered by assets, a strong reserve position.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "TJ Cavanaugh".

Thomas J. Cavanaugh, F.S.A.

**Summary of Actuarial Assumptions
June 30, 1996**

Economic Assumptions

The investment return rate used in the valuations was 8.5% per year, compounded annually (net after investment expenses). This assumption is used to make money payable at one point in time equal in value to a different amount of money payable at another point in time.

Pay increase assumptions for individual active members are shown for sample ages on page 66. Part of the assumption for each age is for merit and/or seniority increase, and the other 4.5% recognizes wage inflation. This assumption is used to project a member's current salary to the salaries upon which benefits will be based.

The active member payroll is assumed to increase 4.5% annually, which is the portion of the individual pay increase assumptions attributable to inflation.

Future cost-of-living adjustments are assumed to be 4.25% per year, on a compounded basis.

The number of active members is assumed to continue at the present number.

Non-Economic Assumptions

The mortality table, for post-retirement mortality, used in evaluating allowances to be paid was the 1971 Group Annuity Mortality Table, projected to the year 2000, with a 1 year setback for men and a 7 year age setback for women. Related values are shown on page 67. This assumption is used to measure probabilities of members dying before retirement and the probabilities of each benefit payment being made after retirement.

The probabilities of age and service retirement are shown on page 67.

The probabilities of withdrawal from service, disability and death-in-service are shown for sample ages on page 66. For disability retirement, impaired longevity was recognized by use of special mortality tables.

The entry age normal actuarial cost method of valuation was used in determining liabilities and normal cost.

Differences in the past between assumed experience and actuarial experience ("actuarial gains and losses") become part of actuarial accrued liabilities.

Unfunded actuarial accrued liabilities are amortized to produce payments, (principal & interest) which are level percent of payroll contributions.

Employer contribution dollars were assumed to be paid in equal installments throughout the employer fiscal year.

Present assets (cash & investments) were valued using a 3 year moving average market value.

The data about persons now covered and about present assets were furnished by the System's administrative staff. Although examined for general reasonableness, the data were not audited by the Actuary.

The actuarial valuation computations were made by or under the supervision of a Member of the American Academy of Actuaries (M.A.A.A.).

Summary of Actuarial Assumptions
June 30, 1996

**Separations From Active Employment Before Service Retirement
 and Individual Pay Increase Assumptions**

Sample Ages	Years of Service	Percent of Active Members Separating within the Next Year						Pay Increase Assumptions For An Individual Employee		
		Withdrawal		Death		Disability		Merit & Seniority	Base (Economy)	Increase Next Year
		Men	Women	Men	Women	Men	Women			
0		28.0%	28.0%							
1		16.0	16.0							
2		13.0	13.0							
3		12.0	12.0							
4		10.0	10.0							
20	+5	10.0	10.0	.04%	.03%	.00%	.00%	2.7%	4.5%	7.2%
25		10.0	10.0	.04	.04	.04	.02	2.6	4.5	7.1
30		8.8	8.2	.05	.04	.10	.03	2.2	4.5	6.7
35		6.2	5.8	.07	.05	.14	.10	1.9	4.5	6.4
40		4.4	4.7	.10	.07	.18	.15	1.4	4.5	5.9
45		3.4	4.2	.15	.09	.26	.19	1.2	4.5	5.7
50		2.7	3.7	.27	.14	.36	.53	0.7	4.5	5.2
55		1.9	2.6	.49	.24	.69	.74	0.7	4.5	5.2
60		1.2	1.4	.77	.44	1.98	1.59	0.0	4.5	4.5
65		1.0	1.0	1.20	.71	-	-	0.0	4.5	4.5

**Summary of Actuarial Assumptions
June 30, 1996**

Single Life Retirement Values

Sample Attained Ages	Present Value of \$1/Month the First Year Increasing 4.25% Yearly				Future Life Expectancy (Years)			
	Service		Disability		Service		Disability	
	Men	Women	Men	Women	Men	Women	Men	Women
40	\$ 227.32	\$ 241.68	\$ 145.80	\$ 172.05	38.46	44.22	19.70	26.02
45	213.01	229.92	135.03	163.72	33.73	39.41	17.50	23.70
50	196.82	216.04	123.31	154.47	29.17	34.67	15.35	21.39
55	178.96	200.19	111.98	145.04	24.82	30.06	13.43	19.18
60	159.30	182.67	102.48	134.91	20.70	25.67	11.87	17.01
65	137.97	163.39	94.62	123.55	16.82	21.50	10.56	14.82
70	116.05	142.33	85.20	109.90	13.32	17.57	9.13	12.50
75	95.36	120.39	73.06	92.74	10.36	13.99	7.49	10.00
80	75.80	99.39	57.72	74.23	7.83	10.91	5.66	7.62
85	59.51	79.51	43.28	57.72	5.89	8.29	4.08	5.66

Percent of Eligible Active Members Retiring Next Year

Retirement Ages	Percent	
	Men	Women
50	25.0%	25.0%
51	25.0	25.0
52	25.0	25.0
53	25.0	25.0
54	25.0	25.0
55	5.0	5.0
56	5.0	5.0
57	5.0	5.0
58	5.0	5.0
59	5.0	8.0
60	10.0	10.0
61	20.0	20.0
62	30.0	35.0
63	20.0	20.0
64	30.0	30.0
65	45.0	45.0
66	35.0	25.0
67	30.0	25.0
68	20.0	25.0
69	20.0	25.0
70	30.0	30.0
71	20.0	25.0
72	20.0	25.0
73	20.0	30.0
74	20.0	30.0
75 & Over	100.0%	100.0%

Missouri State Employees' Retirement System

Pension Trust Funds
Summary of Member Data Included in Valuation
June 30, 1996

Active Members

Valuation Group	Number	Payroll	Group Averages		
			Salary	Age (Yrs)	Service (Yrs)
Missouri State Employees' Plan					
Regular state employees	46,175	\$ 1,080,364,513	\$ 23,397	41.9	9.5
Elected officials	6	479,812	79,969	50.7	7.0
Legislative clerks	149	2,261,302	15,177	47.0	9.1
Legislators	196	4,966,047	25,337	49.2	7.8
Uniformed water patrol	76	2,221,847	29,235	37.2	11.1
Conservation department	1,393	41,390,772	29,713	41.9	13.2
Contract employees	3,430	135,920,707	39,627	48.0	12.9
Total MSEP group	<u>51,425</u>	<u>\$ 1,267,605,000</u>	<u>\$ 24,650</u>	<u>42.3</u>	<u>9.8</u>
Administrative Law Judges' and Legal Advisors' Plan					
	46	\$ 2,706,314	\$ 58,833	43.8	6.8
Non-funded Judicial Plan					
	366	\$ 29,908,056	\$ 81,716	51.6	10.6

Retired Lives

Type of Benefit Payment	Number	Annual Benefits	Group Averages	
			Benefit	Age (Yrs)
Missouri State Employees' Plan				
Retirement	13,562	\$ 109,261,344	\$ 8,056	72.0
Disability	87	335,844	3,860	57.2
Survivor of active member	758	3,255,828	4,295	59.1
Survivor of retired member	597	3,380,172	5,662	72.3
Total MSEP group	<u>15,004</u>	<u>\$ 116,233,188</u>	<u>\$ 7,747</u>	<u>71.4</u>
Administrative Law Judges' and Legal Advisors' Plan				
	21	\$ 646,956	\$ 30,807	71.3
Non-funded Judicial Plan				
	337	\$ 10,069,944	\$ 29,881	75.0

Others

Group	Terminated Vested	Leave of Absence	Long-Term Disability
Missouri State Employees' Plan	10,473	332	797
Administrative Law Judges' and Legal Advisors' Plan	12	0	0
Non-funded Judicial Plan	63	0	1

Missouri State Employees' Retirement System

Missouri State Employees' Plan
Active Members by Attained Age and Years of Service
June 30, 1996

Attained Age	Years of Service to Valuation Date							Totals	
	0-4	5-9	10-14	15-19	20-24	25-29	30 Plus	No.	Valuation Payroll
Under 20	69							69	\$ 1,075,191
20-24	1,829	15						1,844	31,285,563
25-29	4,732	768	40					5,540	112,878,687
30-34	3,295	2,054	855	63				6,267	139,255,998
35-39	2,546	2,014	1,545	992	78			7,175	169,826,041
40-44	2,433	1,961	1,395	1,465	874	57		8,185	207,757,083
45-49	2,077	1,773	1,330	1,316	1,384	674	47	8,601	226,621,718
50-54	1,376	1,212	930	923	851	801	235	6,328	173,218,312
55-59	719	866	637	602	565	523	379	4,291	119,131,081
60	99	134	125	105	70	69	74	676	18,361,070
61	81	118	108	87	60	72	56	582	15,596,784
62	52	118	85	74	55	45	61	490	13,651,561
63	43	69	65	52	33	27	36	325	9,392,874
64	49	59	55	40	34	35	33	305	8,469,088
65	27	46	32	23	24	16	30	198	5,742,513
66	22	27	21	18	13	10	15	126	3,974,426
67	9	24	18	21	12	9	11	104	2,981,057
68	5	13	16	13	4	2	7	60	1,562,580
69	1	12	16	17	9	5	4	64	2,074,505
70 & Over	21	22	37	37	25	26	27	195	4,748,868
Totals	19,485	11,305	7,310	5,848	4,091	2,371	1,015	51,425	\$1,267,605,000

While not used in the financial computations, the following group averages are computed and shown because of their general interest.

Group Averages:

Age	42.3 Years
Service	9.8 Years
Annual Pay	\$ 24,650

Missouri State Employees' Retirement System

**Administrative Law Judges' and Legal Advisors' Plan
Active Members by Attained Age and Years of Service
June 30, 1996**

Attained Age	Years of Service to Valuation Date							Totals	
	0-4	5-9	10-14	15-19	20-24	25-29	30Plus	No.	Valuation Payroll
25-29	1							1	\$ 28,217
30-34	5	1						6	311,373
35-39	7	4						11	627,231
40-44	4	5	2					11	670,139
45-49	3	2	2					7	441,783
50-54	3			1	1			5	324,602
55-59		1		1				2	130,748
65					1			1	53,796
70&Over			1				1	2	118,425
Totals	23	13	5	2	2	0	1	46	\$2,706,314

While not used in the financial computations, the following group averages are computed and shown because of their general interest.

Group Averages:

Age	43.8 Years
Service	6.8 Years
AnnualPay	\$ 58,833

Missouri State Employees' Retirement System

Judicial Plan
Active Members by Attained Age and Years of Service
June 30, 1996

Attained Age	Years of Service to Valuation Date							Totals	
	0-4	5-9	10-14	15-19	20-24	25-29	30Plus	No.	Valuation Payroll
30-34	4	1						5	\$ 386,637
35-39	13	4						17	1,296,690
40-44	28	18	9	4				59	4,811,744
45-49	29	24	10	17	4			84	6,802,997
50-54	22	23	11	9	6			71	5,808,088
55-59	7	16	9	12	5	4	1	54	4,455,126
60	1	3	1	2	2			9	739,147
61		3	1	3	1			8	673,315
62	1		1		3	1		6	487,035
63		1		3	3			7	614,337
64	1	3	1	2	1	1		9	745,893
65		2	2	1	1	3	1	10	818,579
66	1	2	1	4		2	1	11	908,238
67	1		2	1	2	1	1	8	690,396
68				3		1		4	334,917
69			1	1		1		3	248,631
70 & Over				1				1	86,286
Totals	108	100	49	63	28	14	4	366	\$ 29,908,056

While not used in the financial computations, the following group averages are computed and shown because of their general interest.

Group Averages:

Age	51.6 Years
Service	10.6 Years
Annual Pay	\$ 81,716

Missouri State Employees' Retirement System

**Missouri State Employees' Retirement System
Schedules of Active Member Valuation Data
Six Years Ended June 30, 1996**

Missouri State Employees' Plan

Schedule of Active Member Valuation Data

Valuation Date	Number	Annual Payroll	Annual Average Pay	% Increase In Average Pay
June 30, 1991	46,725	\$ 1,027,719,059	\$ 21,995	3.61%
June 30, 1992	46,616	1,030,240,894	22,101	0.48
June 30, 1993	47,954	1,063,246,615	22,172	0.32
June 30, 1994	49,436	1,124,862,008	22,754	2.62
June 30, 1995	50,524	1,198,938,042	23,730	4.29
June 30, 1996	51,425	1,267,605,000	24,650	3.88

Administrative Law Judges' and Legal Advisors' Plan

Schedule of Active Member Valuation Data

Valuation Date	Number	Annual Payroll	Annual Average Pay	% Increase In Average Pay
June 30, 1991	34	\$ 1,940,201	\$ 57,065	1.42%
June 30, 1992	31	1,725,380	55,657	-2.47
June 30, 1993	34	1,931,355	56,805	2.06
June 30, 1994	36	2,094,062	58,168	2.40
June 30, 1995	37	2,166,275	58,548	0.65
June 30, 1996	46	2,706,314	58,833	0.49

Judicial Plan

Schedule of Active Member Valuation Data

Valuation Date	Number	Annual Payroll	Annual Average Pay	% Increase In Average Pay
June 30, 1991	346	\$ 25,742,372	\$ 74,400	6.14%
June 30, 1992	352	26,402,164	75,006	0.81
June 30, 1993	355	26,641,236	75,046	0.05
June 30, 1994	354	27,006,602	76,290	1.66
June 30, 1995	357	27,984,008	78,387	2.75
June 30, 1996	366	29,908,056	81,716	4.25

Missouri State Employees' Retirement System

Missouri State Employees' Plan
Retirees and Beneficiaries Added and Removed
Ten Years Ended June 30, 1996

	Beginning Balance	Additions	Deletions	Ending Balance
FY 87				
Retirees	9,133	749	368	9,514
Beneficiaries	520	81	25	576
FY 88				
Retirees	9,514	1,322	875	9,961
Beneficiaries	576	96	21	651
FY 89				
Retirees	9,961	966	553	10,374
Beneficiaries	651	105	36	720
FY 90				
Retirees	10,374	866	540	10,700
Beneficiaries	720	102	27	795
FY 91				
Retirees	10,700	898	467	11,131
Beneficiaries	795	91	22	864
FY 92				
Retirees	11,131	936	460	11,607
Beneficiaries	864	117	36	945
FY 93				
Retirees	11,607	996	502	12,101
Beneficiaries	945	107	38	1,014
FY 94				
Retirees	12,101	957	542	12,516
Beneficiaries	1,014	168	47	1,135
FY 95				
Retirees	12,516	1,186	561	13,141
Beneficiaries	1,135	154	46	1,243
FY 96				
Retirees	13,141	1,108	600	13,649
Beneficiaries	1,243	154	42	1,355

Missouri State Employees' Retirement System

**Administrative Law Judges' and Legal Advisors Plan
Retirees and Beneficiaries Added and Removed
Ten Years Ended June 30, 1996**

	Beginning Balance	Additions	Deletions	Ending Balance
FY 87				
Retirees	1	2	0	3
Beneficiaries	0	0	0	0
FY 88				
Retirees	3	3	0	6
Beneficiaries	0	0	0	0
FY 89				
Retirees	6	1	0	7
Beneficiaries	0	0	0	0
FY 90				
Retirees	7	2	0	9
Beneficiaries	0	0	0	0
FY 91				
Retirees	9	3	1	11
Beneficiaries	0	2	0	2
FY 92				
Retirees	11	4	1	14
Beneficiaries	2	1	0	3
FY 93				
Retirees	14	2	0	16
Beneficiaries	3	0	0	3
FY 94				
Retirees	16	1	0	17
Beneficiaries	3	0	0	3
FY 95				
Retirees	17	1	1	17
Beneficiaries	3	1	0	4
FY 96				
Retirees	17	0	0	17
Beneficiaries	4	0	0	4

Missouri State Employees' Retirement System

**Judicial Plan
Retirees and Beneficiaries Added and Removed
Ten Years Ended June 30, 1996**

	Beginning Balance	Additions	Deletions	Ending Balance
FY 88				
Retirees	143	23	13	153
Beneficiaries	88	11	2	97
FY 89				
Retirees	153	16	14	155
Beneficiaries	97	13	2	108
FY 90				
Retirees	155	14	5	164
Beneficiaries	108	6	3	111
FY 91				
Retirees	164	23	10	177
Beneficiaries	111	15	4	122
FY 92				
Retirees	177	19	14	182
Beneficiaries	122	8	5	125
FY 93				
Retirees	182	11	10	183
Beneficiaries	125	5	6	124
FY 94				
Retirees	183	15	12	186
Beneficiaries	124	11	4	131
FY 95				
Retirees	186	27	7	206
Beneficiaries	131	8	3	136
FY 96				
Retirees	206	11	10	207
Beneficiaries	136	6	12	130

Information Prior To Fiscal Year 1988 Not Available.

Missouri State Employees' Retirement System

Short-Term Solvency Test
Ten Years Ended June 30, 1996

Missouri State Employees' Plan

Actuarial Accrued Liabilities for

Fiscal Year	Member Contributions (1)	Current Retirees and Beneficiaries (2)	Active and Inactive Members, Employer Financed Portion (3)	Net Assets Available for Benefits	Percentage of Actuarial Liabilities Covered by Net Asset Available For		
					(1)	(2)	(3)
1987	\$ 498,712	\$ 332,745,597	\$ 874,911,012	\$ 1,029,734,188	100.0%	100.0%	79.6%
1988	496,248	370,132,734	1,198,613,048	1,255,558,874	100.0	100.0	73.8
1989	492,278	492,128,269	1,289,505,018	1,417,715,534	100.0	100.0	71.7
1990	482,785	520,837,298	1,340,045,133	1,587,114,827	100.0	100.0	79.5
1991	465,307	587,489,069	1,464,646,384	1,793,370,043	100.0	100.0	82.3
1992	455,328	662,010,170	1,629,118,392	1,991,215,165	100.0	100.0	81.6
1993	448,909	743,697,883	1,703,075,268	2,236,558,739	100.0	100.0	87.6
1994	448,559	909,819,763	2,009,188,103	2,425,134,504	100.0	100.0	75.4
1995	448,559	1,010,431,608	2,139,916,413	2,649,077,134	100.0	100.0	76.6
1996	448,559	1,156,347,608	2,283,330,316	2,927,896,643	100.0	100.0	77.6

Administrative Law Judges' and Legal Advisors' Plan

Actuarial Accrued Liabilities for

Fiscal Year	Member Contributions (1)	Current Retirees and Beneficiaries (2)	Active and Inactive Members, Employer Financed Portion (3)	Net Assets Available for Benefits	Percentage of Actuarial Liabilities Covered by Net Asset Available For		
					(1)	(2)	(3)
1987	\$ 0	\$ 772,549	\$ 3,413,812	\$ 2,243,078	100.0%	100.0%	43.1%
1988	0	1,752,412	3,630,756	2,723,051	100.0	100.0	26.7
1989	0	2,109,119	4,341,140	3,348,429	100.0	100.0	28.5
1990	0	2,479,268	3,789,264	4,093,598	100.0	100.0	42.6
1991	0	3,587,023	3,615,836	4,707,938	100.0	100.0	31.0
1992	0	4,910,423	2,572,992	5,247,546	100.0	100.0	13.1
1993	0	5,615,161	2,549,307	5,864,317	100.0	100.0	9.8
1994	0	5,973,718	2,793,014	6,229,224	100.0	100.0	9.1
1995	0	6,088,732	3,641,223	6,655,207	100.0	100.0	15.6
1996	0	6,196,526	4,079,837	7,258,814	100.0	100.0	26.0

Judicial Plan

Actuarial Accrued Liabilities for

Fiscal Year	Member Contributions (1)	Current Retirees and Beneficiaries (2)	Active and Inactive Members, Employer Financed Portion (3)	Net Assets Available for Benefits	Percentage of Actuarial Liabilities Covered by Net Asset Available For		
					(1)	(2)	(3)
1989	\$ 0	\$ 51,985,358	\$ 45,419,078	\$ 0	100.0%	0.0%	0.0%
1990	0	50,907,136	50,993,604	0	100.0	0.0	0.0
1991	0	57,923,939	61,128,646	0	100.0	0.0	0.0
1992	0	64,240,019	62,900,515	0	100.0	0.0	0.0
1993	0	65,843,955	66,598,009	0	100.0	0.0	0.0
1994	0	70,477,754	71,117,871	0	100.0	0.0	0.0
1995	0	81,586,593	72,060,389	0	100.0	0.0	0.0
1996	0	86,145,180	75,588,930	0	100.0	0.0	0.0

Summary of Plan Provisions

The Missouri State Employees' Retirement System (MOSERS), established September 1, 1957, is governed by the statutes of the State of Missouri.

Purpose

MOSERS provides retirement, survivor and disability benefits, and life insurance to its members.

MOSERS administers retirement benefits for most State employees, including members of the Water Patrol, members of the General Assembly, and Elected State Officials. MOSERS is a non-profit entity which is responsible for administering the law in accordance with the expressed intent of the General Assembly and bears a fiduciary obligation to the State employees who are its beneficiaries.

This is a summary of the provisions of the Revised Statutes of Missouri (RSMo), as amended, that governed the programs which MOSERS administered during the period covered by this report. It does not amend or overrule any applicable statute or administrative rule and, in the event of a conflict, the applicable statute or rule would apply.

Administration

The statutes provide that the administration of MOSERS be vested in an 11 member Board of Trustees. The Board is comprised of:

Two members of the Senate, appointed by the President Pro Tem of the Senate;

Two members of the House, appointed by the Speaker of the House;

Two members appointed by the Governor;

Three other members of the System, two active members elected by the active and vested members and one retiree, elected by the retired members;

The State Treasurer; and

The Commissioner of Administration.

The management of MOSERS is the responsibility of the Executive Director who is appointed by the Board and serves at its pleasure.

The Executive Director acts as advisor to the Board on all matters pertaining to the System and, with the approval of the Board, contracts for professional services and employs the remaining staff needed to operate the System.

Retirement

Eligibility

Members who work in a position normally requiring at least 1,000 hours of work a year and who are not simultaneously accumulating creditable service under another retirement program supported by State contributions (other than social security) are eligible and required to participate in the Retirement Plan.

Unreduced Retirement Benefits

A member may retire with full benefits when he/she attains:

<u>Age</u>	<u>Service</u>
60	15 years
65	5 years
65	4 years*
Rule of 80 (80 & out)**	

* Must be retiring directly from active employment.

** Must be at least age 50.

A member of the General Assembly may retire with full benefits when he/she attains:

<u>Age</u>	<u>Service</u>
55	3 biennial assemblies

Uniformed members of the Water Patrol may retire with full benefits when he/she attains:

<u>Age</u>	<u>Service</u>
55	5 years
55	4 years*
Rule of 80 (80 & out)**	

* Must be retiring directly from active employment.

** Must be at least age 50.

Early Retirement

Members of MOSERS may retire early with a reduced benefit at age 55 with 10 years of service. Elected State Officials may retire early at age 55 with 10 years of service.

There are no early retirement provisions for General Assembly members and uniformed members of the Water Patrol.

Benefit Formula

The benefit formula for members of MOSERS is 1.6 percent of the average of the highest 36 consecutive months of salary times years of creditable service.

General Assembly members receive:

- ◆ \$150 x number of biennial assemblies (3 or more).

Elected State Officials with less than 12 years of service as an elected official receive 1.6 percent of the average of their highest three consecutive calendar years of salary times years of creditable service. Those officials with 12 or more years of service receive 50 percent of the statutory salary paid to the current elected official in the highest position which the retiree previously held.

Uniformed members of the Water Patrol receive 1.6 percent of the average of their highest 36 consecutive months of salary times years of creditable service. That amount is then increased by 33-1/3 percent to determine their normal retirement annuity.

Creditable Service

Creditable service is a combination of the creditable prior service a member has accrued before becoming a member of MOSERS and the years and full months of Membership Service the member has as a member of MOSERS.

Creditable service is used in determining the amount of the member's benefit under the System.

Vesting is based on service which is recognized in determining the member's eligibility for benefits under the System. A member is fully vested upon attainment of five years of service.

Optional Forms of Payment

Retirement benefits are paid according to the election made by the member just prior to retirement. A member may choose a life income annuity and receive a full benefit with no survivor option or the member may choose a 50 percent or 100 percent joint and survivor option. If one of the latter is chosen, the benefit is reduced and, upon the members' death, the surviving spouse receives either 50 percent or 100 percent of the member's reduced benefit.

Under either joint and survivor option, if the designated surviving spouse dies before the retiree, the retiree's benefit will "pop-up" or revert to the life income annuity option effective the month following the spouse's death.

Members of the Department of Conservation, General Assembly, and Elected Officials automatically receive a 50 percent surviving spouse benefit for service in those positions without any reduction in their benefit.

MOSERS' members may also choose lifetime income with either 60 or 120 guaranteed monthly payments. If the member dies before receiving the designated number of payments, the beneficiary receives the remaining payments.

Cost-of-Living Adjustments

Retired members receive annual cost-of-living adjustments (COLAs) equal to 80 percent of the previous year's change in the Consumer Price Index (CPI) with a minimum of four percent and maximum of five percent of the monthly benefit received the previous year.

Members may receive a cumulative maximum of 65 percent of their base benefit in cost-of-living adjustments.

Survivor's Benefit

A 100 percent joint and survivor benefit, based on the member's accrued base benefit, will be paid to the eligible surviving spouse if the member is fully vested and dies prior to retirement.

With no eligible surviving spouse, the member's unemancipated minor children will receive 50 percent of the fully vested member's accrued base benefit.

Contributions

MOSERS is a non-contributory plan, with the entire cost paid by the state of Missouri. The contribution rate paid by the State for fiscal year 1996 was 10.69 percent of the membership payroll.

Insurance Plans

Long-Term Disability

Members of MOSERS in a position normally requiring 1,000 hours of work a year are covered under the Long-Term Disability Plan, unless they work for a State agency which has its own long-term disability plan. Eligible participants receive 60 percent of their compensation minus primary Social Security, Workers' Compensation, and employer-provided income. The benefit commences on the 121st day of disability or after sick leave expires, whichever occurs last. Long-term disability benefits cease when the disability ends, when retirement benefits begin, when the member returns to work, or upon the member's death.

Life Insurance

Basic Life Insurance

Active employees covered under the MOSERS' life insurance plan receive \$15,000 of Basic Life Insurance on the first of the month coinciding with or following the date of employment. The cost of Basic Life Insurance is paid by the State. Eligible members, who immediately retire from active employment, are provided \$5,000 of Basic Life Insurance by the State at no cost to the member. Retired members may convert up to \$10,000 to an individual policy with the insurance carrier at individual rates. Terminating employees may convert up to \$15,000 of Basic Life Insurance at individual rates.

Optional Life Insurance

Members working for an agency covered under MOSERS' life insurance plan are eligible for Optional Life Insurance on the first of the month coinciding with or following their date of employment. Members are responsible for paying the entire cost of their Optional Life Insurance. The two options available are:

- ◆ Option A - Employee may elect 1, 2, or 3 times annual salary. The amount automatically increases or decreases each May 1 based on the preceding January salary.
- ◆ Option B - Employee may elect a flat amount not to exceed three times annual salary.

Members who immediately retire from active employment after May 1, 1996, may continue up to \$60,000 of their Optional Life Insurance at the group rate and may convert their remaining Optional Life Insurance at individual rates. Terminating employees may convert an amount up to the amount they had as an active employee at individual rates.

Judges/Administrative Law Judges

MOSERS is also responsible for the administration of the retirement, life insurance, and disability plans for judges of state courts and administrative law judges/legal advisors of the Division of Workers' Compensation. (Administrative law judges/legal advisors will hereafter be referred to as ALJs.) The benefits provided to judges and ALJs are funded separately. Judges' benefits are paid by the State on a "pay-as-you-go" basis, while the benefits for ALJs are actuarially funded by the State. The State contributed 21.16% of the ALJs payroll during fiscal year 1996.

Normal Retirement

Judges may retire at age 62 with 12 years of service or at age 60 with 15 years. The benefit is based on the years and months of creditable service the judge has and on the judge's salary.

ALJs are eligible for normal retirement when they reach at least age 65 with 12 years of service or when they have reached age 55 and have 20 or more years of creditable service. The benefit is based on years and full months of service and on salary.

Early Retirement

Judges with less than 15 years of services may elect retirement as early as age 60. Judges who retire between age 60 and 62 receive a benefit equal to the proportion of normal retirement benefits that the judge's service bears to 15 years.

There are no early retirement provisions for ALJs.

Benefit Formula

Judges at least age 62, with 12 or more years of service receive a monthly benefit of one-half the salary of a judge on the highest court on which the judge served at the time the judge retires from office. Judges with less than 12 years of service receive a benefit that is calculated based on the proportion of normal retirement benefits that the judge's service bears to 12 years.

ALJs at least age 65, with 12 or more years of service receive a monthly benefit of one-half of their average monthly salary based on their highest annual salary.

ALJs with less than 12 years of service receive a benefit equal to the proportion of normal retirement benefits that their service bears to 12 years.

Creditable Service

Creditable service is a combination of the creditable prior service accrued before becoming a member and the years and full months of service judges or ALJs have as a member of their respective retirement plans. Creditable service is used in determining the amount of the benefit under each retirement plan.

Cost-of-Living Adjustments

Judges and ALJs may apply to become special consultants, thus becoming eligible for cost-of-living adjustments (COLAs) equal to 80 percent of the previous year's change in the Consumer Price Index (CPI) with a minimum of four percent and maximum of five percent of the monthly benefit received the previous year.

Survivor Benefit

The survivor benefit of an active judge or ALJ equals 50 percent of the benefit accrued to age 70, unless the period of service could not have been 12 years by age 70, which results in a reduced benefit being paid. The survivor benefit of a terminated judge or ALJ with 12 or more years of service is 50 percent of the accrued benefit. The benefit to the survivor of a retired judge equals 50 percent of the judge's monthly retirement benefit.

Disability

Judges who become disabled receive one-half of their salary on the date of disability. This is a Constitutionally-provided disability benefit paid until his/her term expires. In addition, judges and ALJs receive the same Long-Term Disability coverage as the other members of MOSERS.

Life Insurance

The Basic and Optional Life Insurance benefits provided to active judges and ALJs are the same as those provided to other members of MOSERS as described on pages 78 and 79. Basic Life Insurance for retiring or terminating judges and ALJs ends on the date of termination of employment.

Retired judges and ALJs may convert Basic and Optional Life Insurance to an individual policy and pay the individual rate.

Changes in Plan Provisions

The following is a brief description of legislation enacted during the 1996 legislative session by the Missouri General Assembly which affects future benefits for plan participants. The laws were effective August 28, 1996, unless otherwise noted.

House Bill 1208

Allows the Commissioner of Administration to establish and maintain a flexible benefits plan for state employees. This flexible benefits plan will permit an employee to select certain specified benefit options based on an amount appropriated for each employee and the cost of each benefit, provided that the employee maintains a minimum level of health care and retirement benefits. The plan may also allow an employee to select a combination of benefit options with a cost greater than the amount appropriated, provided the employee pays the additional cost through payroll deductions. Benefit options offered through the flexible benefit plan may include medical coverage, life insurance, dental and vision plans and plans for retirement savings.

House Bill 1355

Requires a legislative body and/or committee responsible for determining any proposed change in retirement benefit to review an actuarial cost statement prepared using the method, period and assumptions set forth in the most recent periodic actuarial valuation of the retirement system.

House Bill 1361

Allows a judge who elects to continue working beyond normal retirement age (age 60 with 15 years of service or age 62 with 12 years of service) to have annual cost-of-living adjustments (COLAs) added to the judge's base benefit at the time of retirement. These COLAs are accrued during the period the judge first becomes eligible to retire and the actual date of retirement, at a minimum rate of 4% (not to exceed a maximum rate of 5%), however, cumulative lifetime increases are limited to 65% of the original benefit amount.

Senate Bill 540

Allows the state Department of Health to transfer the Missouri Rehabilitation Center to the University of Missouri upon agreement between the Department of Health and the University's Board of Curators. (Effective date April 1, 1996).

Missouri State Employees' Retirement System

Missouri State Employees' Plan
Actuarial Present Values
June 30, 1996

Actuarial Present Value, June 30, 1996	Actuarial Present Value	Portion Covered by Future Normal Cost Contributions	Actuarial Accrued Liabilities
Active Members			
Service retirement benefits based on services rendered before and likely to be rendered after valuation date	\$ 2,453,292,472	\$ 603,204,486	\$ 1,850,087,986
Disability benefits likely to be paid to present active members who become totally and permanently disabled	52,844,418	23,952,550	28,891,868
Survivor benefits likely to be paid to widows and children of present active members who die before retiring	75,080,246	25,871,752	49,208,494
Separation benefits likely to be paid to present active members			
Refunds of member contributions	448,559		
Deferred benefits	<u>324,074,604</u>		
Total	<u>324,523,163</u>	<u>143,251,723</u>	<u>181,271,440</u>
Active Member Totals	<u>\$ 2,905,740,299</u>	<u>\$ 796,280,511</u>	<u>2,109,459,788</u>
Members on Leave of Absence & LTD			
Service retirement benefits based on service rendered before the valuation date			46,511,792
Terminated Vested Members			
Service retirement benefits based on service rendered before the valuation date			127,807,295
Retired Lives			
Total Actuarial Accrued Liability			1,156,347,608
Assets used in Valuation			3,440,126,483
Unfunded Actuarial Accrued Liability			<u>2,927,896,643</u>
			<u>\$ 512,229,840</u>

Missouri State Employees' Retirement System

Administrative Law Judges' and Legal Advisors' Plan
Actuarial Present Values
June 30, 1996

	Actuarial Present Value	Portion Covered by Future Normal Cost Contributions	Actuarial Accrued Liabilities
Actuarial Present Value, June 30			
Active Members			
Service retirement benefits based on services rendered before and likely to be rendered after valuation date	\$ 4,609,113	\$ 2,112,796	\$ 2,496,317
Disability benefits likely to be paid to present active members who become totally and permanently disabled	92,582	64,968	27,614
Survivor benefits likely to be paid to widows and children of present active members who die before retiring	215,802	157,292	58,510
Separation benefits likely to be paid to present active members	1,160,290	833,032	327,258
Active member totals	<hr/> \$ 6,077,787	<hr/> \$ 3,168,088	<hr/> 2,909,699
Members on Leave of Absence and LTD			
Service retirement benefits based on service rendered before the valuation date			0
Terminated Vested Members			
Service retirement benefits based on service rendered before the valuation date			1,170,138
Retired Lives			
Total actuarial accrued liability		6,196,526	
Assets used in valuation		10,276,363	
Unfunded actuarial accrued liability		7,258,814	
		<hr/> \$ 3,017,549	

**Judicial Plan
Actuarial Present Values
June 30, 1996**

Actuarial Present Value, June 30, 1996	Actuarial Present Value	Portion Covered by Future Normal Cost Contributions	Actuarial Accrued Liabilities
Active Members			
Service retirement benefits based on services rendered before and likely to be rendered after valuation date	\$ 102,787,248	\$ 38,212,504	\$ 64,574,744
Disability benefits likely to be paid to present active members who become totally and permanently disabled	1,588,211	1,126,677	461,534
Survivor benefits likely to be paid to widows and children of present active members who die before retiring	3,869,228	2,189,601	1,679,627
Active Member Totals	<hr/> \$ 108,244,687	<hr/> \$ 41,528,782	<hr/> 66,715,905
Members on Leave of Absence & LTD			
Service retirement benefits based on service rendered before the valuation date			271,516
Terminated Vested Members			
Service retirement benefits based on service rendered before the valuation date			8,601,509
Retired Lives			
Total Actuarial Accrued Liability		86,145,180	
Assets used in Valuation		161,734,110	
Unfunded Actuarial Accrued Liability		0	
		<hr/> \$ 161,734,110	



*Harry & Mary Ann Wallenburn
Otterville, Missouri*



Statistical Section

Summary

Plan Membership

Membership in the pension trusts administered by MOSERS increased by 1,409. Active members increased by 919, retired members increased by 615, and terminated vested members decreased by 125. Membership data for the last ten years ended June 30, 1996, can be found on page 87.

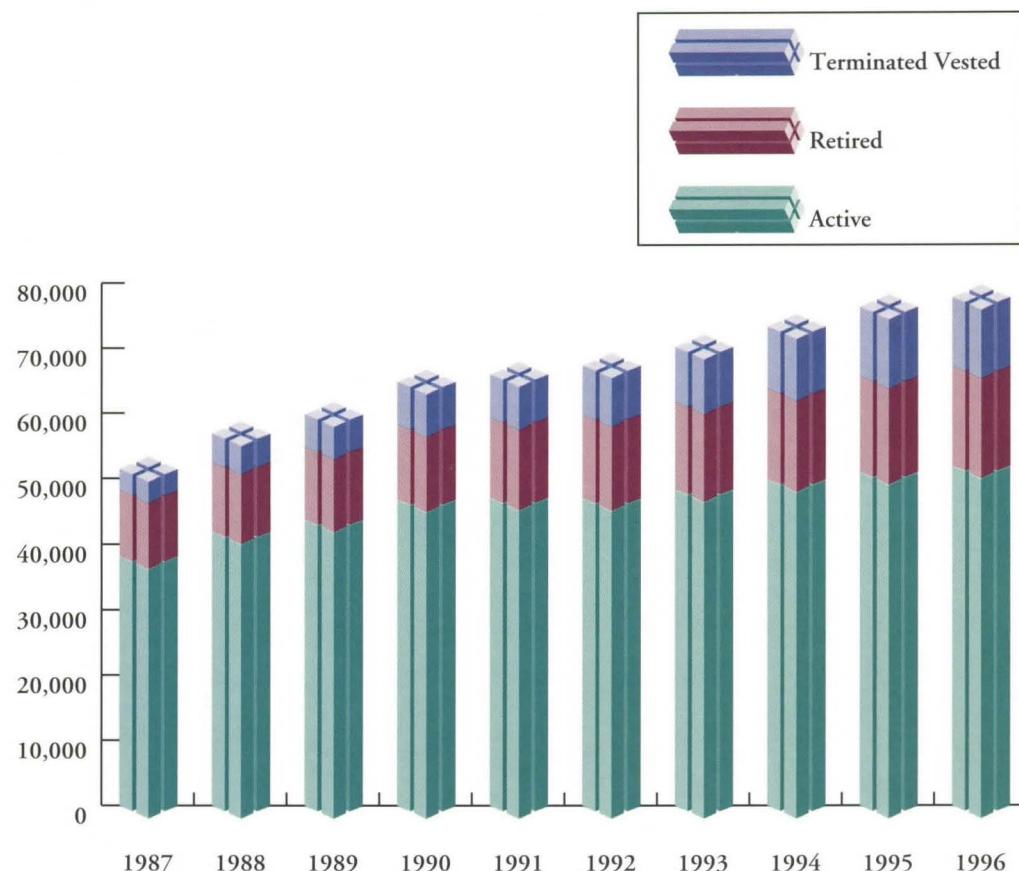
Net Assets vs. Liabilities

The charts on page 88 graphically represent the funding progress of the pension plans for the ten years ended June 30, 1996. The chart on the top of page 88 compares the net assets held in trust for pension benefits to pension benefit liabilities. The top line represents the accrued liabilities of the plans funded on an actuarial basis and the bottom segment represents the net assets accumulated to fund those liabilities (identified by type of assets). The spread between the total accrued liabilities and the total net assets represents the unfunded actuarial accrued liabilities. The chart on the bottom of page 88 represents the funded ratio of the Missouri State Employees Plan for the ten years ended June 30, 1996.

The existence of the unfunded actuarial accrued liabilities is not necessarily an indication of financial problems, but the fluctuations are important and should be monitored and controlled.

Missouri State Employees' Retirement System

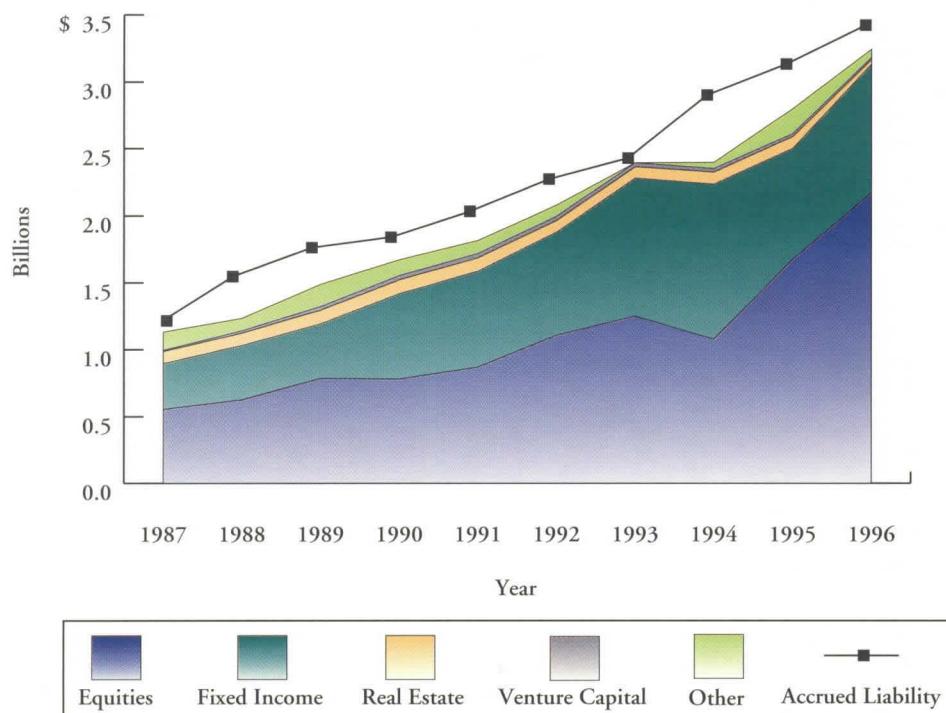
**Missouri State Employees' Retirement System
Membership in Retirement Plans
Last Ten Fiscal Years**



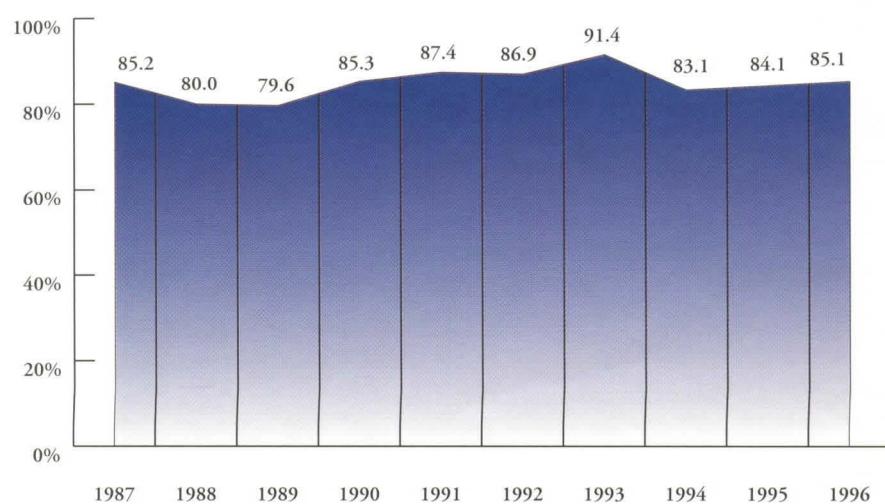
Fiscal Year	Active	Retired	Terminated Vested
1987	38,174	10,090	3,200
1988	41,944	10,612	4,356
1989	43,787	11,090	4,997
1990	46,834	11,495	6,544
1991	47,105	12,307	6,610
1992	46,999	12,876	7,484
1993	48,343	13,441	8,423
1994	49,826	13,988	9,499
1995	50,918	14,747	10,673
1996	51,837	15,362	10,548

Missouri State Employees' Retirement System

**Missouri State Employees' Retirement System
Pension Trust Funds
Net Assets vs. Pension Liabilities
Ten Years Ended June 30, 1996**



**Missouri State Employees' Plan
Valuation Assets as Percents of Pension Liabilities
Ten Years Ended June 30, 1996**



Missouri State Employees' Retirement System

Pension Trust Funds
Ten Year Historical Data

Missouri State Employees' Plan
Additions by Source

Fiscal Year	Employer Contribution Rate	Employer Contributions as a Percent of Covered Payroll	Employer Contribution Amount	Employer Contributions Service Transfers	Member Payments For Purchasing Service Credit	State Reimbursements of Non-funded Benefits	Net Investment Income	Other	Total
1987	10.00%	10.39%	\$ 71,969,009	\$ 0	\$ 143,670	\$ 11,666,327	\$ 119,961,219	\$ (43,198)	\$203,697,027
1988	12.10	11.69	96,412,071	52,223,619	596,649	4,703,479	(11,094,897)	26,469	142,867,390
1989	9.90	9.96	89,177,022	4,274,011	376,701	407,569	209,858,847	20,901	304,115,051
1990	9.90	9.87	98,135,838	770,697	715,433	0	140,370,991	204,872	240,197,831
1991	9.90	10.01	102,854,950	8,459,034	446,286	0	95,945,092	9,569	207,714,931
1992	9.65	9.77	100,672,145	112,988	321,713	0	230,191,287	6,560	331,304,693
1993	9.68	9.69	102,988,219	117,466	547,961	0	293,481,441	6,047	397,141,134
1994	9.49	9.48	106,681,308	78,554	765,977	0	(15,865,184)	411,469	92,072,124
1995	9.04	9.08	108,902,372	170,081	753,984	0	393,915,517	0	503,741,954
1996	10.69	10.81	137,007,112	135,598	726,527	0	453,955,454	9,129	591,833,820

Missouri State Employees' Plan
Deductions by Type

Fiscal Year	Benefits	Contribution Refunds	Service Transfers	Administrative	Legal Settlements	Total
1987	\$ 34,308,404	\$ 43,549	\$ 0	\$ 2,418,787	\$ 0	\$ 36,770,740
1988	39,050,127	25,889	0	1,180,163	0	40,256,179
1989	48,569,419	4,298	0	1,496,855	0	50,070,572
1990	54,720,308	11,169	0	1,831,797	0	56,563,274
1991	60,796,849	19,297	0	2,318,369	0	63,134,515
1992	67,850,658	12,508	0	2,333,634	0	70,196,800
1993	75,606,809	22,007	0	2,441,067	0	78,069,883
1994	84,482,785	1,598	16,252	3,336,941	0	87,837,576
1995	96,198,413	0	0	3,060,262	0	99,258,675
1996	115,627,764	0	30,327	3,221,578	23,148,000	142,027,669

Pension Trust Funds
Ten Year Historical Data

Administrative Law Judges' and Legal Advisors' Plan
Additions by Source

Fiscal Year	Employer Contribution Rate	Employer Contributions as a Percent of Covered Payroll	Employer Contribution Amount	Net Investment Income	Other	Total
1987	24.98%	24.44%	\$ 346,596	\$ 249,197	\$ (89)	\$ 595,704
1988	24.98	25.50	359,066	(22,856)	105	336,315
1989	24.98	27.44	513,199	499,463	78	1,012,740
1990	30.17	31.66	605,577	387,076	530	993,183
1991	26.61	27.20	527,648	254,734	25	782,407
1992	25.51	28.99	500,250	601,626	0	1,101,876
1993	27.77	28.41	548,707	766,887	16	1,315,610
1994	24.18	23.97	502,019	(45,152)	1,056	457,923
1995	22.50	23.00	498,233	986,426	0	1,484,659
1996	21.16	20.26	548,276	1,122,107	23	1,670,406

Administrative Law Judges' and Legal Advisors' Plan
Deductions by Type

Fiscal Year	Benefits	Administrative	Total
1987	\$ 52,983	\$ 5,025	\$ 58,008
1988	104,757	2,315	107,072
1989	163,327	3,734	167,061
1990	191,534	4,734	196,268
1991	317,374	6,045	323,419
1992	399,463	6,085	405,548
1993	502,310	6,401	508,711
1994	565,082	8,566	573,648
1995	600,650	7,663	608,313
1996	633,527	7,963	641,490

Pension Trust Funds
Ten Year Historical Data

Judicial Plan
Additions by Source

Fiscal Year	Employer Contribution Rate	Employer Contributions as a % of Covered Payroll	Employer Contribution Amount
1987	Non-funded	16.49%	\$ 3,572,635
1988	Non-funded	19.36	4,380,973
1989	Non-funded	22.69	5,142,127
1990	Non-funded	23.87	5,838,700
1991	Non-funded	25.53	6,572,690
1992	Non-funded	27.78	7,335,579
1993	Non-funded	29.01	7,728,160
1994	Non-funded	30.38	8,205,509
1995	Non-funded	32.84	9,188,599
1996	Non-funded	33.13	9,907,505

Judicial Plan
Deductions by Type

Fiscal Year	Benefits
1987	\$ 3,572,635
1988	4,380,973
1989	5,142,127
1990	5,838,700
1991	6,572,690
1992	7,335,579
1993	7,728,160
1994	8,205,509
1995	9,188,599
1996	9,907,505

**Benefit Expenses by Type
Last Ten Fiscal Years**

	FY96	FY95	FY94	FY93	FY92
Retirement	\$ 102,257,950	\$ 88,532,996	\$ 78,018,158	\$ 70,002,701	\$ 62,868,259
Survivor	6,001,028	5,146,981	4,202,875	3,533,845	3,081,500
Disability	347,589	379,382	436,022	484,806	566,322
Nonfunded	0	0	0	0	0
Lump Sum Payment	4,494,183	0	0	0	0
Judges	9,907,505	9,188,599	8,205,509	7,728,160	7,335,579
Legislators	2,527,014	2,139,053	1,825,730	1,585,456	1,334,577
Administrative Law Judges	633,527	600,650	565,082	502,310	399,463
	FY91	FY 90	FY 89	FY 88	FY 87
Retirement	\$ 56,451,361	\$ 50,622,879	\$ 44,961,595	\$ 30,597,097	\$ 20,206,526
Survivor	2,566,480	2,178,282	1,653,244	1,365,209	1,097,245
Disability	659,961	996,712	1,210,440	1,767,075	1,333,313
Nonfunded	0	0	0	4,703,479	11,160,433
Lump Sum Payment	0	0	0	0	0
Judges	6,572,690	5,838,700	5,142,127	4,380,973	3,572,635
Legislators	1,119,047	922,435	714,248	617,267	505,894
Administrative Law Judges	317,374	191,534	163,327	104,757	52,983

Missouri State Employees' Retirement System

**Missouri State Employees' Retirement System
Benefits Payable June 30, 1996
Tabulated by Option and Type of Benefit**

Type of Benefit	Number	Annual Funded Benefits	Average Annual Benefits
Service Retirement			
Normal Annuity	10,822	\$ 77,243,592	\$ 7,138
50% Joint and Survivor	998	14,324,076	14,353
75% Joint and Survivor	23	211,032	9,175
100% Joint and Survivor	1,432	15,321,684	10,700
5 Year Certain and Life	139	1,095,540	7,882
10 Year Certain and Life	148	1,065,420	7,199
Survivor Beneficiary	597	3,380,172	5,662
Total	14,159	112,641,516	7,955
Disability Retirement			
	87	335,844	3,860
Death-in-Service			
Grand Totals	758	3,255,828	4,295
	15,004	\$ 116,233,188	\$ 7,747

**Average Monthly Benefit Amounts
Six Years Ended June 30, 1996**

	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
REGULAR						
Member	455	484	516	546	623	661
Survivor	274	296	315	341	373	403
Disability	249	254	262	281	303	321
LEGISLATORS						
Member	1,026	1,046	1,055	1,083	1,350	1,380
Survivor	428	411	424	447	501	579
ALJs						
Member	2,431	2,536	2,639	2,659	2,795	2,907
Survivor	758	917	917	917	1,009	1,049
JUDGES						
Member	2,672	2,867	3,006	3,127	3,248	3,361
Survivor	835	866	882	918	1,001	1,095
Disability	0	0	0	0	0	3,169

Missouri State Employees' Retirement System

**Missouri State Employees' Plan
Retirants and Beneficiaries as of June 30, 1996
Tabulated by Year of Retirement**

Year of Retirement	Number	Total Annual Benefits	Average Monthly Benefit
1996	625	\$ 5,515,332	\$ 735
1995	1,366	12,570,288	767
1994	1,008	8,260,896	683
1993	1,112	10,078,512	755
1992	927	8,250,204	742
1991	960	8,970,708	779
1990	771	6,974,172	754
1989	790	6,801,660	717
1988	808	7,074,984	730
1987	711	5,426,496	636
1986	635	4,236,768	556
1985	575	3,982,272	577
1984	479	3,161,352	550
1983	535	3,551,412	553
1982	543	3,504,384	538
1981	456	2,903,208	531
1980	359	2,157,864	501
1979	288	1,634,376	473
1978	281	1,517,496	450
1977	316	1,872,444	494
1976	317	1,690,728	444
1975	250	1,430,760	477
1974	213	984,468	385
1973	235	1,284,204	455
1972	124	709,392	477
1971	74	381,108	429
1970	69	369,252	446
1969	50	282,264	470
1968	36	192,468	446
1967	20	103,488	431
1966	22	123,792	469
1965	21	94,500	375
1964	12	64,812	450
1963	8	39,948	416
1962 & Prior	8	37,176	387
	15,004	\$ 116,233,188	\$ 646

Missouri State Employees' Retirement System

Total Benefits Payable June 30, 1996
Tabulated by Attained Ages of Benefit Recipients

Missouri State Employees' Plan

Attained Ages	Service Retirement		Disability Retirement		Survivors & Beneficiaries		Totals	
	No.	Annual Benefits	No.	Annual Benefits	No.	Annual Benefits	No.	Annual Benefits
Under 20					41	\$ 68,208	41	\$ 68,208
20-24					7	11,640	7	11,640
25-29					2	10,044	2	10,044
30-34					8	22,380	8	22,380
35-39			1	\$ 1,500	13	61,728	14	63,228
40-44			4	10,092	48	242,880	52	252,972
45-49			9	38,100	83	425,400	92	463,500
50-54	118	\$ 1,598,616	13	43,812	89	495,108	220	2,137,536
55-59	687	7,347,948	23	87,504	123	748,824	833	8,184,276
60-64	1,840	18,120,240	36	151,488	184	1,049,340	2,060	19,321,068
65-69	3,280	27,548,820	1	3,348	189	906,288	3,470	28,458,456
70-74	3,013	24,255,828			202	1,083,132	3,215	25,338,960
75-79	2,241	16,178,172			173	814,716	2,414	16,992,888
80-84	1,382	8,536,956			128	449,688	1,510	8,986,644
85-89	711	4,019,772			46	204,912	757	4,224,684
90-94	238	1,372,152			18	40,656	256	1,412,808
95	19	120,192			1	1,056	20	121,248
96	15	59,352					15	59,352
97	7	33,384					7	33,384
98	3	27,144					3	27,144
99	3	16,140					3	16,140
100	1	2,196					1	2,196
101	3	19,284					3	19,284
102	1	5,148					1	5,148
Totals	13,562	\$ 109,261,344	87	\$ 335,844	1,355	\$ 6,636,000	15,004	\$ 116,233,188

Average Age at Retirement 62.9 years
Average Age Now 71.4 years

Missouri State Employees' Retirement System

**Total Benefits Payable June 30, 1996
Tabulated by Attained Ages of Benefit Recipients**

Administrative Law Judges' and Legal Advisors' Plan

Attained Ages	Service Retirement		Disability Retirement		Survivors & Beneficiaries		Totals	
	No.	Annual Benefits	No.	Annual Benefits	No.	Annual Benefits	No.	Annual Benefits
50-54					1	\$ 16,020	1	\$ 16,020
60-64	1	\$ 37,392			1	15,516	2	52,908
65-69	5	163,752					5	163,752
70-74	6	222,000			1	4,164	7	226,164
75-79	3	98,244			1	15,240	4	113,484
80-84	2	74,628					2	74,628
Totals	17	\$ 596,016	0	\$ 0	4	\$ 50,940	21	\$ 646,956

Average Age at Retirement 67.1 Years
 Average Age Now 71.4 Years

Missouri State Employees' Retirement System

**Internal Service Fund
Ten Year Historical Data**

Revenues By Source

Fiscal Year	Employer Contributions*	Member Contributions*	Investment Income	Optional Life Premium Receipts		Basic Life Premium Receipts		LTD Premium Receipts		HMO Premium Receipts*		Premium Retention for Operating Expenses		Miscellaneous Income		Settlements net of Legal Expense			Total
				\$	**	\$	**	\$	**	\$	**	\$	**	\$	0	18,072,125	0		
1987	\$26,841,381	\$13,697,408	\$1,180,017	\$	**	\$	**	\$	**	\$	**	\$	**	\$	0	\$14,743,260	\$56,462,066		
1988	33,613,800	14,744,801	791,492		**		**		**		**		**		0	18,072,125	67,222,218		
1989	45,111,161	15,548,221	898,264	3,332,531		1,885,927		5,282,647		12,433,348		304,088		(26)	0	0	84,796,161		
1990	46,378,087	15,658,445	1,927,530	3,968,140		2,164,340		5,369,083		16,109,220		347,313		742	0	0	91,922,900		
1991	48,641,390	16,954,753	2,191,155	4,305,953		2,243,495		4,966,782		14,598,356		357,329		(2,893)	0	0	94,256,320		
1992	51,919,719	18,802,967	2,114,338	4,412,743		2,268,739		4,938,383		12,663,887		347,710		542	0	0	97,469,028		
1993	62,080,566	21,380,567	693,202	4,551,873		2,365,344		5,003,490		16,429,142		365,106		1,340	0	0	112,870,630		
1994	37,918,127	11,513,810	384,795	4,862,255		2,520,938		5,265,812		8,308,277		355,642		3,534	0	0	71,133,190		
1995	0	0	79,215	5,535,334		2,801,939		5,650,682		0		275,646		0	205,411	0	14,548,227		
1996	0	0	81,687	5,924,096		2,037,618		6,148,535		0		396,889		0	0	0	14,588,825		

* The Missouri State Employees Medical Care Plan operations were transferred to the Missouri Consolidated Health Care Plan January 1, 1994.

** Detail was unavailable for 1987 and 1988, the amounts are included in the category of other.

**Internal Service Fund
Ten Year Historical Data**

Expenses By Type

Fiscal Year	Medical Claims*	Administrative*	Optional Life Premium Disbursements	Basic Life Premium Disbursements	LTD Premium Disbursements	HMO Premium Disbursements	Premium Refunds*	Basic Life Death Benefits	Other	Total
1987	\$41,705,334	\$2,725,664	\$ **	\$ **	\$ **	\$ **	\$ **	\$ **	\$14,046,802	\$58,477,800
1988	54,210,305	3,279,229	**	**	**	**	**	**	17,471,794	74,961,328
1989	50,881,898	2,985,644	3,309,173	1,860,544	5,281,829	12,379,289	235,973	56,000	0	76,990,350
1990	49,407,467	4,933,409	3,940,775	2,163,524	5,366,952	16,040,850	225,735	6,000	0	82,084,712
1991	67,969,018	5,814,424	4,269,303	2,242,193	5,915,818	14,537,336	212,825	2,000	0	100,962,917
1992	83,674,959	5,291,117	4,375,115	2,267,723	5,136,992	12,609,838	227,967	0	0	113,583,711
1993	83,281,386	6,055,713	4,514,821	2,365,344	5,002,115	16,386,136	267,792	0	0	117,873,307
1994	23,005,156	3,336,388	4,825,723	2,519,343	5,264,677	8,284,843	152,961	0	0	47,389,091
1995	0	349,835	5,482,421	2,799,469	5,648,930	0	57,161	5,000	0	14,342,816
1996	0	330,702	5,874,317	3,023,323	6,146,610	0	53,652	0	0	15,428,604

* The Missouri State Employees Medical Care Plan operations were transferred to the Missouri Consolidated Health Care Plan January 1, 1994.

** Detail was unavailable for 1987 and 1988, the amounts are included in the category of other.

This publication may be provided in alternative formats.

To obtain accessible formats, please make a request to the

Personnel Officer of MOSERS at 573-751-2342 or 800-827-1063.

Missouri relay numbers are 800-735-2466 (Voice) or 800-735-2966 (TT).

MOSERS is an equal opportunity employer.